

FULL EMPLOYMENT FOR INDIA

BY THE SAME AUTHOR
Economic Stabilisation of Indian Agriculture

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“Your book is a thoughtful exposition of a difficult and most topical subject and I congratulate you on your approach and on your treatment of the vital problems concerning our country.”

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—*Professor D. G. Karye, in the Bombay Chronicle.*

Full Employment For India

BY

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"Post-war Economic Co-ordination for India,"

"Economic Stabilisation of Indian Agriculture."

"O Bharata, is this populace happy well-established in (its)
Occupation * ?"

*Agriculture, cattle conservation, commerce and trade,

—*Valmiki, Ayodhya, S. 100, sloka, 47.*

" वार्तायां * सम्प्रतं तात लोकोयं सुखमेधते ? "

*कृषि गोरक्ष्य वाणिज्यं क्रयेयं वार्तेत्युदाहृतं ।

—वाल्मीकि

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TO
THE ANCIENT SAGES OF THIS
COUNTRY,

Who dedicated their lives to create
and
sustain an integrated pattern
of
human civilisation,

This Book
is
most respectfully dedicated.

धारणाद्धर्ममित्याहुर्धर्मेण विधृताः प्रजाः ।
यस्माद्धारयते सर्वम् त्रैलोक्यं सचराचरम् ॥
धारणाद्विद्विषां चैव धर्मेणारञ्जयन् प्रजाः ।
तस्माद्धारणमित्युक्तं सधर्म इति निश्चयः ॥

—*Valmiki, Uttara Kanda,*

श्रेयान्स्वधर्मो विगुणः परधर्मात्स्वनुष्ठितात् ।
स्वधर्मे निधनं श्रेयः परधर्मो भयावहः ॥

—*Gita*

PREFACE.

In a world which has just emerged from an orgy of "perversion of all that is best in man's spirit, to serve purposes of hate, cruelty, deceit and revenge,"* it should be refreshing to turn to the enchanting music of the First Poet of India, *Valmiki*. The episode is symbolic: *Sri Rama*, like the world's Social Conscience, is in exile; and on the placid plateau of *Chitrakuta*, he questions his Brother: "O *Bharata*, is this populace happy well established in (its) Occupation?"

Those who understand the import of the question and the spirit of the Questioner will realise that the problem of maintaining an adequate structure of occupational balance to ensure a better pattern of human and economic relations in Society has been a subject of deep and reverent study for the Ancient Lawmakers of our country, as the complicated stratification of our society into castes and subcastes in order to effectively implement, what Sir William Beveridge calls, "organised mobility of labour" to preserve the essential framework of full employment undamaged by abnormal interregional and interoccupational drifts of populations, goes to testify.

Caught in the meshes of inexorable march of economic and technical 'progress' to which the world was subjected in the last two centuries and under the heavy inundation of the new cultural forces which has been shaping our intellectual climate in the last century, we

* Sir William Beveridge, Full Employment in a Free Society, P. 15.

have learnt to pour censure on our social and cultural institutions which were devised to sustain a corporate pattern of cultural evolution which effectively sterilised forces creating material misery among vast sections of the population, - "misery", which, as Sir William Beveridge quotes with approbation, "generates hate", because of unemployment which is a fundamental auxiliary of technical progress and the relentless drive for productive efficiency to reach cost-structure parity in a competitive economic civilisation, the very foundations of which stand challenged today. "The greatest evil", says Sir William Beveridge, "unemployment is not physical, but moral, not the want it may bring but the hatred and fear which it breeds."*

The problem of ensuring employment balance for about 200 million people (1941) consistent with the dynamics of a rising standard of living for four hundred million people of our country, without reducing productivity of the national economic system, is the most urgent problem of the hour. The task is not easy; nor can the goal of full employment be reached by mere sectional reconstruction of the economic system; mere industrial reconstruction is no sovereign panacea for the huge volume of 'disguised unemployment' which has gone on suppressing the standard of living in the country, which may, should the process go unchecked, precipitate an economic and cultural revolution of unprecedented ferocity. It must be conceded that as Dr. Benham would inform us, "factories make a very minor contribution to the employment problem"†.

* op. cit. p. 15.

† *Economica*, August, 1946, p. 168.

The prospects of full employment for this country, as for all the backward tracts of the world, and subsistence zones; are far brighter than for the metropolitan zones which have reached a definite stage of economic and technical maturity and must depend upon an adequate structure of international trade which a reconstituted pattern of global consumption-propensity can sustain, for implementing adequate programmes of full employment.

Economically and technically, India is a young country; our industrial progress has been stereotyped along narrow channels under the impact of competitive evolution of secondary markets in the country; our agriculture has been of the subsistence type. Full employment for India must necessarily have a different content than that for the metropolitan zones of the world today; it should form a vital part of the general economic developmental programmes to utilise our manpower and material resources more fully than what has been possible under unregulated economic evolution of the last hundred and fifty years. This would undoubtedly postulate for "planning" in which considerations of maintaining cost-structure parities would have to be subordinated to an integral policy of general economic conservation of national resources, in manpower as well as in material wealth.

Naturally high degree productivity would occupy a secondary place in any scheme of full employment for a subsistence zone like India. Nor can international trade be free during the process of economic reconstruction, as full conservation of manpower and material resources might be distorted by the impact of powerful

economic and technical forces from abroad. Nor can vast reconstruction and developmental projects be financed without international financial collaboration which would generate certain trends in our foreign trade, which an impatient 'capitalist' world seeking saving-investment balance would consider "essential". It is through such shifting Scylla and Charybdis of world economic evolution that India will have to steer clear if she is to raise the standard of living for the four hundred millions who are today condemned to subhuman standards of living.

This book attempts to hold a flickering candle on the shifting panorama of world economic landscape in which India has to seek her economic destiny. Her problems are immense and complicated; the world has not yet settled down to any adequate programme of integration of the vast "data" of material progress which technical advance and economic change have released on mankind. Unregulated economic evolution, complicated by the terrific speed of technical advance, has brought mankind to the crossroads where we have to choose between (a) technical advance and high productivity which would steepen the contours of the "paradox of plenty" and would go on widening the penumbra of economic distress in the world; and (b) drastic regulation and synthetisation of all progress ratios in order to reduce the shadow of economic distress, which would undoubtedly sterilise the 'factors' of civilisation making for greater international specialisation and higher standard of living, and foist on the world an epoch of prolonged toil in order to maintain full employment patterns of economic evolution.

It is into such a tempest of economic and cultural confusion that the author has launched his frailb arque. He has no illusions that the conclusions arrived at can be final or beyond controversy. He is eminently aware of the severe limitations of any endeavour to discuss the immense problems of this subcontinent which has been in the aurora of cultural conflict for over two centuries, the impress of which is borne by the economic system which we have come to inherit. Nor does he possess the intellectual daring and mastery of scanning the future evolution of the lives of the unborn generations of this subcontinent in the uncertain dynamics of global economic evolution in the days to come.

This book, therefore, confines itself to a statement of the problems that ought to be considered in any attempt to reach the goal of full employment, rather than with definite programmes of economic rehabilitations. It is more concerned with *a policy*, than a "plan," of full employment for our country. It tries to urge the pressing need to restore occupational balance in economic evolution in India, and the delicate structure of economic adjustments that will have to be attained if this country is to avoid the catastrophe of a cultural revolution born of economic despair, which enormous pressure of population on the standards of living in the country must generate in the near future.

The task is immense ; the terrain is difficult to negotiate and the path is slippery. India must hold her economic balance in a world which has been irretrievably caught in the mad stampede of cost-structure parities and economic expansion and colonisation programmes for international investment of capital which technical advance has released on the metropo-

litan zones. The backward zones of the world can get involved in the relentless investment programmes of a world which has not yet learnt to balance its capital-creation powers with the capital-absorption processes of economic advance without embarking upon gigantic programmes of economic colonisation of the backward tracts of the world whose powers of economic preservation are, indeed, slender.

Naturally, the thesis advanced in the following pages has only a relative value : since its value is dependent upon certain basic assumptions in regard to international economic collaboration and regional economic evolution which have not yet been institutionalised. It is with the purpose of emphasising the pressing urgency of some of the major problems of the country, that this book has been released for publication, in spite of the almost insurmountable difficulties in regard to the collection of data which the author experienced, and if this book throws a little light—may be even a flicker,—on the winding and difficult economic terrain that the four hundred million people of this subcontinent have to tread in reaching adequate standards of living, the author would feel gratified that his labours have been amply rewarded.

The author would like to express his sense of profound gratitude to Professor Sir S. Radhakrishnan for the very kind interest he has always evinced in the author's endeavours. He would like to record his sense of deep gratitude to Professor Rao Sahib S. R. Ranganathan, the Librarian of the Benares Hindu University, for facilities which he very kindly gave him in the University Library. The author would like

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Benares Hindu University, }
4th December, 1946.

T. N. Ramaswamy.

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CHAPTER I.

INDIA IN THE GLOBAL ECONOMIC MATRIX.

Professor Alvin Hansen writes : “the economic problems that confront us in both the domestic sphere and the international sphere are infinitely complex and difficult. We have as yet only reached the kindergarten stage in learning how to manage our complex economic problems.... We have yet to work out a comprehensive, far-reaching program both on the domestic front and the international adequate to give us confidence and faith that our economic future is secure.” * Such is the inevitable nemesis of world economic evolution in the past century. We learn that “between the two world wars, we suffered, throughout the western world... violent price fluctuations, catastrophic movements in the level of production, prolonged intervals of mass unemployment... and very serious undermining of property values, leading in some countries to widespread bankruptcy and in others to virtual elimination of the middle class.” † Obviously, the pattern of world progress in the last century has failed to integrate the diverse forces of economic evolution and has generated “the giant social evils of Want, Disease, Ignorance and Squalor.” ‡ With giant strides in the unco-ordinated alliance between science and the technology of production—both primary and metropolitan—the shadow of what

* *America's Role in the World Economy*, 1945, pp. 21-22.

† Hansen in *op cit* p. 27.

‡ Sir William Beveridge, *Full Employment in a Free Society*, 1944, P. 31.

Dr. Marshall called, "the Residuum" *has grown over the economic landscape of the world. The world has missed the full import of Dr. Marshall's statement. "For the sake of a little material wealth we are wasting those energies which are the factors of production of all wealth. *We are sacrificing those ends towards which material wealth is only a means.*"† This is inevitable in the "unplanned market economy of peace", where, "a substantial part of the productive resources of each country" always stood idle; we learn that "in the last decade before war the average loss of potential output through this cause was an eighth or more."‡

Naturally, as Prof. Stewart would put it, it is high time that the economy of each country is subjected to "unusually searching observation and measurement."§ "Searching observation" of the forces of future economic evolution reveals that the world caught in the cauldron of post-war economic currents is waking into an economic conjuncture in which the frontiers of progress are being incessantly pushed into the horizon. The new world obviously cannot be built on the economic tenets of the nineteenth and the first half of the twentieth centuries. The inevitability of "the spread of capital equipment and modern techniques throughout the

* See Marshall : Principles p.2. "Those who have been called the Residuum of our large towns have little opportunity for friendship, they know nothing of the decencies and the quiet, and very little even of the unity of family life" —

† Italics mine, Marshall : Principles P. 659.

‡ Sir William Beveridge : Full Employment, 1944, P. 121.

§ W. Blair Stewart : in American Economic Review for May, 1946,

Shifts in the Geographical and Industrial Pattern of Economic Activity, P. 36.

world,” must be recognised and adequately implemented. New forces of “international economic equilibrium” demonstrate that the process of global economic collaboration to sustain an integrated pattern of world economic stabilisation is inexorable necessitating what Alvin Hansen calls, reciprocal “structural changes in the economies of undeveloped countries”; † this would, *mutatis mutandis*, imply the abandonment of the “economic colonialism” of nineteenth century as well as international economic expropriation, by metropolitan powers, of the primary zones of the world. Without the emergence of an integrated pattern of world economic evolution based on the new concepts of global economic co-ordination and collaboration, the world economic order will merge into economic anarchy and cultural chaos born of “mass unemployment” not only of human resources but also of all factors of production which will undoubtedly magnify the problems of economic adjustment beyond the reach of any known instrument of economic control.

• Obviously, the search for better living standards, and a more stable global economy is futile without “large-scale developmental projects, industrialisation to an extent that is feasible, and the diversification of agriculture, the development of human resources through improved health, nutrition and education, the promotion of a higher standard of living, rising productivity, and increased purchasing power.” ‡ — an imposing programme of global economic rehabilitation, the attainment of which is beset with innumerable national

* Alvin Hansen *op.cit* P. 31.

† *Ibid* P. 30.

‡ Hansen *op. cit* P. 20.

as well as international economic resistances, which we shall have occasion to explore as we proceed with the present book.

It is not an easy feat to launch and sustain any adequate programme of global economic stabilisation aiming at rising standards of life without drastic transformation of the international, as well as national, economic matrix. Some of the fundamental problems of economic readjustment assume almost unsurmountable dimensions, and in the mounting uncertainties of the dynamics of international economic evolution in the momentous days to come, global economic stabilisation is, if we may employ Sir William Beveridge's terminology, "a voyage among shifting and dangerous currents"*—these currents arising not only from the dynamics of regional programmes of post-war economic rehabilitation, but also from the side of the uncontrollable and unpredictable uncertainties and resistances of the international structure of primary production. In such a setting, Professor Hart's observations that "in economic stabilisation, the first years will be the hardest, and the provision should be thought of in terms of launching stabilisation in the face of unsettled economic conditions and public skepticism rather than in terms of running it after it is well established."† have to be taken with a good deal of caution. Economic stabilisation schemes can only be sustained by reduction of the dynamics of human progress into predictable quantities, which implies a comprehensiveness of international economic administration and proper regulation of regional economic forces which cannot be

* Full Employment, P. 193.

† American Economic Review, May, 1946, The Problem of Full Employment, P. 286.

institutionalised in the near future. Stabilisation of economic progress ratios will involve severe regulation of technical progress which would undoubtedly jeopardise productivity of the primary as well as secondary units of production, thereby neutralising regional programmes of "full employment" and maintenance of rising standards of living, bringing with it certain patent rigidities in the mechanism of economic adjustment which would end by plunging the global economic order into economic chaos and confusion.

Necessarily, economic stabilisation involves a process of delicate integration of regional programmes of economic rehabilitation involving intricate adjustments, not only in the orbit of production, but also in the monetary sphere, in the composition and course of foreign trade, in the dynamics of employment, in the structure and intensity of regional consumption, and finally in the course and trend of technical progress, and involves a high degree of flexibility in the structure of economic relationships, regional as well as international, to absorb certain irreducible economic data like the dynamics of population and the shifting structure of international consumption. This logically emphasises the unpredictable relativity of all programmes of general global economic stabilisation and the impossibility of adequately implementing any programme of regulated economic evolution in the cultural climate of a world which still hugs to the 19th century conceptions of civic and social freedom and the 'democratic' institutions of public administration.

There is no use closing our eyes to the new cultural forces that are manifesting in the new civilisation that is slowly emerging from the total war of the last six

years. The recent war only precipitated certain cultural tendencies which were becoming more and more insistent in the last century of unregulated economic evolution. It is time that we realised that to assume "that there will be no more emergencies or shiftings in the economic structure of the world is mere wishful thinking." * These shiftings and transformations in the international structure of economic relations cannot be attempted within the cultural framework of the 19th century, and will imply certain structural changes in the social and political systems of the world. As Professor Laski might have put it, "a new political philosophy is necessary to a new world", † because the economic horizon set for the world by political democracy of the 19th century has shifted, and as Prof. Hansen observes: "Freedom and democracy cannot be achieved, by going back to *laissez faire* and noninterventionist policies. In the modern world, freedom and democracy can survive only by a positive programme of action firmly based on the broad education of the masses of our people and on their active and self-disciplined participation in the formation of public policy." ‡

Programmes of global economic stabilisation imply a powerful world political organisation, which has the necessary sanction to regulate regional programmes of economic stabilisation in order to integrate them with the policies of international economic evolution in the days to come. There is no other royal road to reduce the intensity of inter-regional economic resistances and frictions which, sooner or later, will bring into conflict the competing nations, and destroy the entire structure

* Sir William Beveridge in *op cit.* P. 105.

† *Grammar of politics*, P. 15.

‡ *op. cit.* P. 9.

of international economic and cultural harmony.

We are today living under the grim and dismal shadow of the Malthusian Devil which the late Lord Keynes had the honour of resurrecting—this impasse in the economic evolution of the world is not a transient creation of the Hitlerite conflagration, but is the culmination of the relentless process of global economic transformation in the present century, which has involved not only the vast and undeveloped primary zones of the world, but also the metropolitan powers, whose economic solidarity and stability is closely woven into economic destinies of the primary producers who form over seventy per cent of the world's population. It is rank optimism to imagine that the metropolitan powers of the world would be able to keep up their standards of living, structures of production, employment-ratios and general economic stability, without proper integration of the consumption propensities of the primary regions of the world. The last Great Depression has amply testified to what extent the economic prosperity of the metropolitan zones is interwoven into the pattern of economic evolution of the primary zones. In fact Sir William Beveridge goes to the extent of asserting, "one of the inner secrets of the trade cycle is to be found, not in banker's parlours or the board-rooms of industry, but on the prairies and plantations, in the mines and oil wells. The new signpost points clearly to the need for joint action by many nations to bring order into the production and marketing of primary commodities." *

* op. cit 305.

Economic rehabilitation of the primary zones of the world is beset with immense economic complications of international import. It is obvious that without substantial increase in the consumption propensities of the population of primary zones, no programmes of economic stabilisation with a view to full employment in metropolitan zones can be adequately implemented. Increase of consumption propensity in primary zones can only be achieved by two processes of economic administration: (a) progressive stabilisation of primary prices and (b) increase of 'real' standard of life through increased productivity of secondary units of production, not through management of wage trends, but through more efficient technical progress in the processes of manufacture. The first would undoubtedly create immense problems of adjustment between 'real and money' wages in urban zones of the world, besides creating resistances in the management of the industrial cost structure, while the second would contaminate the economic system by distorting sectional employment-rates and creating blocks of structural unemployment, thus forging the economic system away from any adequate programme of 'full employment' and a rising standard of living in industrial zones, and creating the giant problem of reabsorption of the redundant bloc of labour into the economic system at a wage-level which would implement a co-ordinated pattern of national standards of living.

Naturally, any programme of reconstruction and adjustment of consumption propensity of primary zones to sustain a programme of full employment in the metropolitan zones would have to fall back on

'diversification' and decentralisation of industry, which drives the specific regions sponsoring such a programme of economic evolution away from the accepted pattern of global economic and commercial relationships which alone can sustain an integrated structure of full employment in the primary as well as in the metropolitan zones of the world.

* An integrated plan of economic development of the backward tracts of the world can only be adequately implemented by international movements of capital, if we accept the dictum : "Diversification and industrialisation, moreover, require the promotion of large scale developmental projects including electric power, port facilities, river valley development, roads, railroads, airways and other communications. Then the basic solution runs in terms of the spread of capital equipment and modern technique throughout the world." * Such vast international capital movements will not only create gaps in the world monetary system, but also end in so distorting the structure of international commercial ratios, through the medium of world exchange markets that, though they might sustain a certain specific pattern of full employment in the capital exporting countries in the initial stages of the programme, would finally so damage the structure of international economic relationships through export of unemployment, through cataclysmic price fluctuations in the primary markets and severe wage shrinkages, that neither the capital-importing country nor the capital-exporting country would be able to maintain any adequate pattern of economic stabilisation for a considerable period of their evolution process.

* Hansen, op. cit. P. 31.

It is imperative, then, that as Mr. Tamagna has urged, "great importance must be attached to the need for mutual adjustments and parallel courses in making financial and economic changes, in order to develop a financial structure which will be thoroughly in harmony with the economic system and able to provide the special facilities required by the new and various economic activities. This organisational approach is of fundamental importance, not only from the standpoint of the various internal economies, but internationally in the relations between the various countries" *

These observations should go to emphasise the immense complexities of reducing the unregulated dynamics of world economic evolution into an easily adjustable scheme of global economic relations. Naturally an adequate programme of economic stabilisation with full employment as an integral part of future economic administration implies an appreciable degree of "flexibility" in the international structure of economic relations, without which there can be neither technical progress nor full employment, nor increased consumption propensity to maintain an integrated structure of secondary and primary production all over the world.

This implies a degree of international control of regional economic evolution in the diverse parts of the world, with a view to sustain a properly co-ordinated structure of industrial and agricultural employment, the machinery for implementing which does not exist today. Nor is there any guarantee that political and cultural considerations will not impinge upon any adequate global regulation of regional economic evolution and

* Mr. Frank M. Tamagna : "The Financial Position of China and Japan, American Economic Review, May, 1946, P. 626.

seriously complicate programmes of international stabilisation of economic evolution, through the inevitable process of distorting global programmes of economic readjustment with the rigid stabilisation equations of regional programmes of postwar economic rehabilitation.

Obviously, the urgency for the institution of a suitable global economic policy becomes imperious with adequate provision for reciprocal adjustments in regional economic structures to maintain an adequate pattern of international commercial relationships. Such a programme of adequate adjustment of regional programmes of economic stabilisation to the maintenance of an adequate structure of global economic relations implies, as Sir William Beveridge postulates, three definite assumptions: (a) adequate adjustment of regional economic evolution to sustain a programme of full employment independent of the structure of foreign trade ; (b) adequate international capital movements to keep up the structure of total outlay on foreign trade without undue pressure on regional gold reserves and on regional monetary systems ; (c) severe regulation of economic and non-economic fluctuations which might undermine the integrated pattern of global economic relations, * together with the erection of an institutional apparatus for the prevention of export of unemployment and international economic expropriations through the mechanism of foreign trade and international capital movements.

An international economic administration to integrate regional programmes of economic stabilisation into the structure of global economic relations can

* Sir William Beveridge : Full Employment, P.218.

easily deteriorate into the most powerful engine of economic expropriation of the undeveloped zones of the world by capital-exporting and metropolitan powers, nor is the task of reducing the specific rigidities and fluctuations inherent in regional patterns of economic self-determination into manageable proportions an easy adventure. International economic government is still in an experimental stage of evolution; and the existence of specific regions of the world which have to keep their vital channels of international economic relationships open in order to maintain an integrated structure of production and employment, investment and savings ratios and dynamic standards of living and flexible wage standards, further complicates the problem of sustaining a pattern of international economic relationships which can reduce the dynamics of regional economic evolution into adjustable proportions. We cannot lose sight of the fundamental complex which dominates international economic evolution in future years : "only when nations can look upon international trade as a means of mutual advantage, and not as a means of exporting unemployment, is their co-operation likely to be fruitful and stable and free from fear," * , since any programme of regional full employment postulates that "a country which aims at full employment, in making plans for international trade, must have regard not merely to the external economic policies but to the internal economic policies of those with whom it plans to trade," † which implies that regional structures of production, wage-standards, the rates and intensities of saving and invest-

* Sir William Beveridge op. cit. P. 219.

† Ibid P. 225.

ment and the dynamics of technical progress must be kept balanced with the structure of economic progress-ratios of the regions with which external economic relationship is rendered inevitable. Such a scheme of intricate economic adjustment does not provide any apparatus for the control of the vicious spiral of economic and financial fluctuations and is bound to distort the integrated structure of employment-ratios in the country which has to keep, what Hansen has called, "cost structure parity" to maintain a vital structure of international commercial relationship.

"Accordingly," we learn, "there is a growing belief throughout the world that a number of new international economic institutions must be undertaken, and that all nations must earnestly co-operate to secure enlightened management of these institutions so that they may contribute to the desired economic goals of stability and full employment," * and this naturally makes it imperative that regional programmes of full employment have to be integrated with the pattern of world economic stabilisation that may be projected in the near future. The sovereign significance of the statement that "in a world in which full employment is reasonably maintained all round, we shall be able to come much closer to an optimum international division of labour than we have ever attained in the past" † cannot be underrated.

These few foregoing observations should have demonstrated that without proper stabilisation of employment ratios in the undeveloped zones of the world, global propensity for consumption of industrial pro-

* Hansen in op cit p. 27.

† Hansen, in op cit P. 164.

ducts cannot be sustained and programmes of full employment in metropolitan zones would soon be neutralised in a bewildering maze of collapsing ratios of foreign trade and industrial cost structures. An integrated pattern of global economic stabilisation of which regional schemes of full employment form a co-ordinated part, would undoubtedly reduce the capacity of any particular zone of the world to engage in programmes of economic expropriation and there should be ample room for the development of international trade within a co-ordinated pattern of international economic relationships to maintain and develop economically complementary zones, rather than resurrect the mad economic stampede of the last hundred years for "sources and markets", which has been the prime cause of the two great wars in the last three decades. There is no other straight route to a sensible reconstruction of international life. We must realise that the Hitlerite upheaval was the grim consequence of the fact that "the world as a whole failed miserably to make the economy function in a satisfactory manner in the two decades between the two world wars. For this the great industrial nations that control the bulk of the world's resources are mainly to blame Out of this failure sprang the breakdown of the world economy and indeed of international political security We shall not succeed in establishing a secure political world following this war unless we solve our economic problems."* Nor can we solve our economic problems with the surviving political ideology of the 19th century, which was wedded to laissez faire institutions of political and economic evolution. "Political equality is never real

* Hansen in op cit P. 27.

unless it is accompanied by virtual economic equality; political power, otherwise, is bound to be the hand maid of economic power either the State must dominate property, or property will dominate the State.”* It is inescapable that only comprehensive integration of the political, economic and technical progress ratios will be able to prepare the international structure of economic and cultural relations to withstand any comprehensive programme of postwar economic and political rehabilitation to regulate and control the uncertain dynamics of global evolution to implement a co-ordinated programme for the maintenance of rising standards of living, progressive employment ratios and proper integration of the forces which determine the course and trend of investment and saving without which the world would again plunge into another prolonged epoch of economic attrition and cultural disintegration.

It is into such a pattern of international economic and cultural evolution that India has to be fitted with the vast population she has been accumulating since the dawn of the present century and the immense resources which would undoubtedly be utilised as we come better to understand the supreme value of a plan of natural and higher conservation to raise India to an economic plane where she would be in a position to contribute substantially to an integrated pattern of world economic stabilisation.

*Today the full impact of unco-ordinated economic evolution of the past century is clearly visible on the economic contours of the country.

* H. J. Laski, *Grammar of Politics*, P. 162.

The latest Census (1941) revealed that India had accumulated a population of 389 millions, and the volume of population settled in rural areas of the country had increased from 300.7 millions in 1931 to 339.3 millions in 1941 revealing that though the percentage of rural population to urban population had fallen in the decade under study from 89 in 1931 to 87 in 1941, it meant no lifting of the enormous pressure of population on the land resources of the country, but only an acceleration of pressure on land with 'multiplier effect' on the structure of production. The credit for maintaining a high ratio of population in the decade goes to North West Frontier Province which registered 25.2 per cent increase in the decade, closely followed by the Punjab with 20.5 per cent and Bengal with 20.3 per cent, the provinces keeping below the average rate of growth of population of 15 per cent being Bihar with 12.3 per cent; Madras with 11.6 per cent, United Provinces with 13.7 per cent. The rate of urbanisation, which is symbolic of the pace of diversification and industrialisation under a centralised type of urban production varies from 3.4 per cent of total population in Assam to 22.6 per cent in Bombay which "is the most urbanised of the major provinces," * with 13 per cent of the total population for the whole of India. Naturally as an unofficial publication tells us : "The progress of urbanisation in India *-if there has been any progress at all-*has been very slow during the past thirty years, the whole increase being a little more than one per cent.' †

* Indian Year Book 1941-42 P. 33.

† Indian Year Book 1941-42, P. 33 Italics mine.

PROGRESS OF URBANISATION IN INDIA.

*Percentage of population. **

	1891	1901	1911	1921	1931	1941
Rural	90.5	90.1	90.6	89.8	89	87
Urban	9.5	9.9	9.4	10.2	11	13
Total	100	100	100	100	100	100

For the half century from 1891 to 1941, urbanisation had 'progressed' from 9.5 per cent to 13 per cent of the total population, these variations in the data of growth of urban population in no way reducing the process of acceleration of population-pressure on the land resources of the country or transforming, to an appreciable extent, the occupational structure of India. The increase in urban population has been "due partly to the natural increase of the pre-existing urban population and partly to migration from rural areas" † which is only a trickle when compared with the gigantic strides in the population-dynamics of our country.

In the half century from 1881, among the urban areas, Karachi had the maximum rate of population-growth with 258.3 per cent, closely followed by Lahore with 187.7 per cent and Tinnavelly with 164.8 per cent and Delhi with 158.1 per cent, while in the decade 1931 to 1941 the maximum variation in the rate of population-increase was registered by Cawnpore with 99 per cent, followed by Ahmedabad, with 97 per cent, Calcutta registering a population increase of 79 per cent, while amongst the larger urban centres of India, Madras

* Based on the figures supplied by the Indian Year Book 1945-46 P. 29.

† Ibid P. 29.

had the lowest rate of population growth with 20 per cent, while the only urban centre which suffered a loss of population in the period under study, being Tinnavelly, with 16 per cent. † There is no doubt that the world war of 1939-45 had a phenomenal impact on the process of urbanisation which will only be revealed by the Census of 1951.

Urbanisation in this country has been essentially of the commercial type rather than of an industrial nature, except during the war years (1939-45) when population movements were generated by transformation of the occupational structure of the country. Every branch of national industry has been transformed in the artificial conjuncture of war-time economic adjustment and has been able to generate and sustain a certain degree of interregional movements of population in the country. Of the Cotton textile industry we learn that "the war in Europe which commenced in September, 1939 opened up the prospect of a spell of comparative prosperity for the industry", * and as regards the iron and steel industry, we learn that "the progress of the steel industry is one of the outstanding developments of the war in India." † The paper industry has also been transformed by the magic touch of war : "the emergency has undoubtedly given the newer mills an excellent opportunity of establishing themselves." †† Thanks to the impact of the war on the sugar industry, we learn that "the Indian Sugar industry is now the second largest industry, next

* Indian Year Book 1945-46 P. 736.

† Vide, Indian Year Book 1945-46 P. 744.

†† Ibid P. 746.

in importance to only the cotton textile industry” * Similarly, lac industry whose area of influence was limited before the recent war has been widened and integrated, since “more lac is being used in India for the manufacture of anti-gas fabrics, laminated jute and paper boards, varnishes for lining munitions’ . † because during the recent war, India had been “turned into the arsenal of the East.” ** A number of large workshops were commandeered for the manufacture of shells and ammunition. Shipbuilding yards and mammoth plants for the assembly of motor vehicles and aeroplanes were established. Night work become almost universal and *there was a nationwide expansion of employment*. Here was the chance that Indian labour has been waiting for and Indian labour has taken it with both hands. Indian Labour has been giving of its best in the all out total war effort.” †† For such a quick transient transformation of the Indian labour landscape, a dramatic and comprehensive adjustment between wage-rates and the dynamics of the cost of living is mainly responsible together with a slowly enlarging cost price margin in agrarian production in the tactical years of the war, as revealed by the movement of commodity prices in the first half of the present war, coupled with the growing volume of landless labourers in the rural zones of the country. Naturally, we learn, “The quinquennium 1940-45 has seen an expansion in Indian industries *which not*

* Ibid P. 755.

† Ibid P. 757.

** Indian Year Book 1945-46 P. 487.

†† Italics mine, Indian Year Book 1945-46 P. 487.

*even the most optimistic of persons would have even dreamt of as possible before the war started There has occurred an unparalleled rise in employment.”** Some industries phenomenally increased wage standards by the inclusion of dearness allowances in an attempt to keep wage-standards synchronised with the movements of price-indices, and we are told that “the highest rates of dearness allowances paid in India are those that obtained in Cotton Textile Mills in Ahmedabad Industrial workers in no centre in India outside Bombay and Ahmedabad are paid dearness allowances as high as those earned by cotton mill workers and others in these two centres,”† in an attempt to keep up the rate of production, which might be seriously affected by labour disputes in case of any wide divergence between wage-standards and the structure of the cost of living indices.

It should be obvious to any one that the structure of employment ratios maintained by emergent regulation of the economic evolution of the country under stress of total war must inevitably liquidate itself in a peace time economic setting. Neither Employment Exchanges now established at Calcutta, Madras, Bombay, Ahmedabad Madras, Cawnpore, Lahore, Nagpur, and Delhi (from 1944) nor Technical Training Schemes will be able to maintain the structure of the labour market which will undoubtedly be contaminated by economic forces of peacetime rehabilitation of industry in a bewildering maze of collapsing wage-standards, mass unemployment, widening chasms between savings and investments in a regime of highly fluctuating cost structure ratios and

* Italics mine, Indian Year Book 1945-46 P. 488.

† Ibid. P. 491.

price readjustments to the dynamics of consumption in a peacetime reorganisation of industry and trade. 'Naturally the urban areas will collapse back into their peacetime economic frame-work and be unable to generate and sustain any adequate structure of rural exodus, unless an integrated economic administration attempts to weave urbanisation into a coordinated scheme of continental economic stabilisation to maintain a progressive pattern of employment ratios, income-structures and production schedules in the rural as well as in the urban areas of the country to implement rising standards of rural and urban living, and adjust the delicate structure of national economy with a flexible volume of foreign trade designed to bring India effectively into the international economic matrix in the postwar years.

Naturally the new urbanisation will have to be different structurally as well as functionally, if future economic evolution of India is to sustain a programme of full employment, from the existing structure of urban economic evolution. The most phenomenal development among urban centres within the framework of the existing economic evolution has been monopolised by Karachi. From the year 1931 to 1941, the population of Karachi has jumped from 247, 791 to 359, 492, similarly Cawnpore has advanced from 243, 755 to 487, 324, Calcutta from 1,388, 644 to 2,488, 083, Lahore from 429,747 to 671,659 ; Ahmedabad from 310,000 to 591,267, Bombay from 1,161,383 to 1,489,883, while almost all urban centres have witnessed an acceleration in their population from 1931 to 1941 of over 20 per cent, excepting urban centres like Trichinopoly and Jaipur, the only urban centres

which have registered an increase of 13 per cent and 17 per cent respectively.

In spite of all this, we learn that, of the urban centres, "Karachi cannot be regarded as an industrial centre, but it is of importance as the principal market and port of shipment for the surplus product of North Western India and as a storage depot for the manufactures and foreign produce, which the hinterland requires in exchange for the raw products sent down. The principal exports are wheat, cotton, barley, rice, gram, oil seeds, wool, hides and skins and animal bones, and the principal imports, cotton, and woollen piece goods, sugar, machinery, iron and steel, mineral oils, coal and coke."* Similarly Bombay is a commercial city and chiefly trades in raw-materials and imports manufactured goods from abroad: "of the raw materials brought down to the port for export by far the most important is cotton, the other principal items being coal, hides, twist and yarn, grains and seeds and manganese ore, while bullion, cotton manufactures, hardwares, metals, machinery, kerosene oil, sugar and timber are the chief imports."† Similarly, "the chief imports into Madras are rice, and food grains, coal, oils, manures, paper and stationery, timber, sugar, dyeing and tanning substances, metal, glass, and glassware, chemicals, hardware, machinery, motor vehicles, cycles and accessories, cotton manufactures, provisions, railway plant and rolling stock, building materials, including cement, skin hides, liquors, spices, fodder, bran and cattlefood, cotton twist and yarn", and the chief exports,

* Handbook of Commercial Information P. 63. † op. cit. P. 71

“groundnuts, skins and hides, onions, tobacco, raw cotton, ores, scrap iron, kerbstones, cotton manufactures, oil cakes, turmeric, manures and coffee.”* Similarly Calcutta “serves the great jute, tea and coal industries, the wheat and seeds traffic of Bihar and the United Provinces and generally the agricultural areas tapped by the main lines of the East Indian, Bengal Nagpur and the Eastern Bengal Railways connecting the delta with the interior of Bengal and Assam.”† The other urban centres are elevated in the economic landscape of the country essentially as distributing centres. Thus Cawnpore happens to be a distributing centre for Manchester piece goods, hardware and machinery, though its factories produce leather goods, woollen and cotton textile, thus rendering the city “industrially and commercially of great and growing importance.”** Similarly Delhi happens to be of value for the primary products of the western parts of the United Provinces though there are certain industries located there. Amritsar is known for its enormous trade in hides and skins and carpet industry. Agra is a “collecting centre for better qualities of hides”, Lahore is “of small importance industrially.”‡ Lucknow is the distributing and collecting centre for the rich agricultural produce of Oudh.§ Jubbulpore has a textile factory and pottery work, Mirzapur is known for the manufacture of shellac and carpets and domestic utensils, Vizagapatam’s trade chiefly consists of manganese ore, myrobolam and groundnuts and “lanka” “pothi” tobaccos, Dacca has degenerated into “a large collecting center for hides

* Ibid P. 89. † Handbook of Com. Information P. 93.

** Ibid P. 110. ‡ Vide, Ibid P. 112.

§ Ibid P- 112.

and skins ; Srinagar is famous for embroidery and canning and has the biggest silk filature in India".*

Because of the utterly insignificant part which the existing urban centers have played in the erection and maintenance of an adequately progressive occupational structure through the instrumentality of a highly flexible wage-standard, there has been no appreciable degree of rural exodus, which alone can maintain rising standards of living in the rural zones and thus provide rural consumption-schedules to sustain a network of ever expanding markets for the urban products of the country. Naturally over seventy per cent of the population is shut up in the rural framework of economic and cultural relations. Thus in Assam, tea happens to be the most important industry and agriculture absorbs 89 per cent of the population.† Similarly in Bengal, agriculture happens to be the principal industry‡ Even in Bombay which has seen greater industrialisation than any other part of India, "agriculture . . . supports sixty-four per cent of the population."§ Madras is maintaining "about 68 per cent of the population." in agriculture.¶ In the North Western Frontier Province, "the population derives its subsistence almost wholly from agriculture. The province is practically without manufactures."** Orissa is "agriculturally and industrially " a backward region.†† In the Punjab agri-

* Ibid P. 113.

† See Indian Year Book 1945-46 P. 77.

‡ Ibid P. 83.

§ Ibid P. 97.

¶ Ibid P. 117.

** Ibid P. 131.

†† Ibid P. 136.

culture is the staple industry of the Province, affording the main means of subsistence to 65.5 per cent of the population.”* In Sindh “out of every 100 workers ... 59, are engaged in agriculture and animal husbandry.”† In the United Provinces, the chief industry is agriculture, which is the principal source of livelihood of a little over 70 per cent of the population and a subsidiary source of income to a further 8 per cent. Similarly of the major units of Indian India, Hyderabad has 56.2 per cent of its population on land resources, Mysore, has “nearly three-fourths of the population” in agriculture and Baroda 64.6 per cent, engaged in primary production.

These foregoing observations serve to emphasise that in the peculiar economic conjuncture of today, the scramble for land has only been intensified, with the inevitable result that there has been no balance in the occupational structure of the country, which has left an indelible impress upon the standards of living not only in the rural areas of the country but also in the urban areas. (This does not imply that India is poor in industrial resources, though certain rigidities in economic evolution have prevented proper conservation of all the resources of the country.) Thus Assam is rich in coal, limestone and petroleum, though coal mines are only partially worked in the Naga Hills and the Lakhimpur districts, with equally good deposits in the Garo Hills, similarly lime stone is quarried in the Jaintia Hills and the Khasi Hills, and petroleum in Lakhimpur and Cachar. There is widespread silk industry in the Assam Valley, but the industry is operated

* Ibid P. 140.

† Ibid P. 151.

on a small scale. Cotton weaving is a cottage industry; similarly greater development of boat-building, brass and metal industries have been neutralised by economic forces of today. So also, Bengal's immense resources await more proper exploitation, particularly textile weaving, metal work, boat construction, excluding jute, industries and some of the modernised types of industrial units like plastic and glass. Bombay with its natural poverty in mineral wealth, possesses a widespread range of handicrafts which await adequate economic conservation. Tobacco industries have been slowly spreading in Bihar along with the variegated development of iron and engineering industries, the Province possesses rich coal-fields in Manbhum, Ramgarh, Rokaro and Karanpura. Lac industries are today centred in Manbhum, Palamau, Ranchi, the Santhal Parganas and Gaya* Cement industries also are developing lately. In Central Provinces and Berar, "industrial life is only in its earliest development."† Yet there are certain textile factories, and exploitation of manganese has developed recently while marble quarrying has been considerable in Jubbulpore. Madras has a well developed cotton textile industry and also jute industry while there are some oil mills, rope works and tile factories, as also tanning factories, soap production and marine industries, match factories on cottage lines and attempts are being made to develop sugar industry in the province. Similarly in Orissa, iron ore is found in Mayurbhanj, Keonjhar and Bonai, and the Province possesses deposits of iron, coal, manganese and mica. Cotton textile industry has developed in the Punjab at

* See Indian Year Book 1945-46 P. 87.

† Ibid. P. 101.

Amritsar, Lahore, Lyallpur, Montgomery and Okhera, wool pressing industry is scattered in the Province, carpet industry and silk industries are developed at Amritsar, metal works at Lahore, sugar and paper industry at Abdullapur, plywood industry at Ludhiana and Shahdra, vegetable oil industry at Lyallpur; besides cement factories, sports goods industries, hosiery, and glass industries, there are also copper industries, electrical industries, chemical industries, ivory-carving and cutlery industries and silk industries which have developed in different centres of the Province. In the United provinces, iron and copper are found in the Himalayan zone; and also limestone in the Etawah district and stone quarrying is developed in Mirzapur. The United Provinces are rich in small industries like the 'kincob' industries of Benares, embroidery industries in Lucknow, glass at Naini, Firozabad Sanui, Hathras, Makhanpur and Shikohabad, lacquered brass work industry at Moradabad, brass industry at Benares, Calico prints at Farrukhabad, glaze pottery industry at Chunar and Khurja and ivory carving at Lucknow, lock and brass works at Aligarh, leather industry at Cawnpore, inlaying industry at Nagina and Saharanpur and copper industry at Almora, to mention the out standing small industries of the Province.

In spite of this imposing catalogue of industries, some of which have emerged into the 'factory' classification, the place that they occupy at present in the vocational structure of the country is inconsiderable. The accompanying table yields certain irresistible conclusions regarding the occupational structure of India.

According to the census of 1931, the following occupational distribution of population is presented :

	No. of workers In millions.	Per- centage	Total main- tained in millions.
A. Production of raw materials }	103.6	67.3	235.3
B. Preparation and supply of materials }	25.6	16.6	58.6
C. Public Admn. and liberal profession }	4.1	2.8	10.4
D. Miscellaneous	20.5	13.3	46.6

By projecting the same method of computation for the census of 1941, we get occupational distribution for the estimated working population of 170 millions thus :

Group	No. of Workers.
A	113.3 millions
B	30 millions
C and D }	28.3 millions

yielding about 300 millions people as the volume of population actually dependent on the land resources of the country.

A close study of the swing of the occupational structure shows a gradual decline in the rate of employment of the population actually emerging into the employable age-groups in the years for which figures can be managed.

Total Number of Actual Workers. (in millions)				
Years	1911	1921	1931	1941
Actual workers	148.9	146.4	154	171.6 (est)
Population in Employable Age groups 15 - 60 }	176.6	175.5	195.8	220 (est)

Except during the abnormal conditions prevailing in the war years (1939-45), the occupational structure has not been resilient enough to absorb the growing volume of the employable bloc of the population of the country and this phenomenon, together with the accelerated rate of population growth in the country, has been responsible for increasing the average density of population without increasing the sustaining capacity of the economic resources of the country :

DENSITY OF POPULATION PER SQUARE MILE. *

	1901	1911	1921	1931	1941
India	179	191	193	213	246
Provinces	254	267	269	296	341

The highest range of variation in the density of population in the four decades from 1901 to 1941 was recorded by Bengal with 43.1 per cent, closely followed by C.P. and Bihar with 42.0 per cent and Sindh with 41.2 per cent and Punjab with 42.5 per cent, while the highest density of population was accumulated by Bengal with 779 in 1941 closely followed by Bihar with 521 and Madras with 341 per square mile, while C. P. and Berar, Sindh and Sikkim are the only regions of the country whose density of population is well below the All-India level, with 170, 94 and 44 respectively. † And if we project against this background an estimate of the population of this country in 1961, on the methods adopted by Mr. Satya Swarup, we shall have accumulated a population of ‡ about 434 million people which will increase the average population-density in the country to 270 people per square mile as against the 246 per square mile of today. This should yield us a

* Vide Census Report, 1941, Vol. I Part I. P. 69.

† Vide Ibid.

‡ Vide Census Report, 1941 P. 42.

progressively declining standard of living unless the occupational struture of the country is transformed under the impact of an integrated pattern of full employment.

Should the existing economic forces be allowed to determine the structure of vocational preference in the country, it should be obvious to anyone who bestows the requisite amount of thought on the problem, that pressure of population on the land resources of the country will only be accelerated in the coming years with disastrous consequences on the standard of living, nutritional levels of diets, infant mortality rates and income-structures, until the enormous magnitude of rural poverty ends in contaminating urban standards of living and the dynamics of wage-standards leaving the country in an economically prostrate condition. In 1936 with a maximum population density of 281 for Czechoslovakia, which has only 39.7 of its population settled on land resources, and with only 36 per cent of national income derived from agriculture and 228 per square mile for Poland which had 64.8 per cent of its population on agriculture, South Eastern Europe was in the grip of phenomenal poverty, "it has been said that in some districts of southern and eastern Poland, a peasant could not afford a whole match for lighting his fire This fact is symptomatic of the degree of poverty still suffered by millions in the last decade before the War."* The position of an old country with more than two-thirds of its population already settled on its land-resources whose productivity is progressively deteriorating and will deteriorate as further accele-

* Cf. *Agrarian Problems from the Baltic to the Aegean* 1944, P. 45-46.

ration of population intensifies pressure of population on land resources is hardly enviable.

The industrial structure of India will not be able to absorb more than three millions from the employable bloc of the population without intensification, and decentralisation of the industrial structure and without adequate adjustment of the secondary cost-structure to absorb the requisite degree of variation in real wage-standards to initiate an integrated drive for equalisation of population density all over the continent, as even under the stress of abnormal demand for labour, the industrial structure was unable to absorb more than 2.5 millions of workers at an adequate wage-level.

LABOUR ABSORPTION IN ORGANISED INDUSTRY *

Total of all factories	1938	1939	1940	1941
	1,737,755	1,751,137	1,844,428	2,156,377
		1942	1943	1944
		2,282,237	2,436,312	2,520,251

LABOUR ABSORBED IN MINES.

Total of all mines	1938	1939	1940
	303,191	301,054	329,770
	1941	1942	1943
	347,018	357,646	349,361

The extreme rigidity with which even under conditions of inflated profit under stress of War, wage standards were adjusted to movements in the cost of living indices becomes patent from the accompanying data regarding labour disputes, the number of labour disputes, and their "intensity" being the heaviest for 1946 since 1921 for our country.

* Source Indian Labour Gazette, Jan., 1946, P. 227.

LABOUR DISPUTES AND LABOURERS INVOLVED. *		
Year	No. of disputes	Labourers involved.
1921	396	600,351
1931	166	203,008
1938	399	401,075
1940	322	452,539
1941	359	291,054
1942	694	772,653
1943	716	525,088
June 1945 to June 1946	1469	1,851,513

If the number of working days lost in 1943 was not heavy, it is because of the anxiety of the industrialists to avoid disputes which might undermine production and their willingness to meet the demand of labour as far as possible. These data should serve to emphasise the serious limitations of the Indian industrial structure to withstand any appreciable degree of management of wage-standards, ** to keep up an equilibrated structure of occupations in the country, within the ambit of the existing pattern of economic administration of our secondary resources.

Similarly the capacity of the transport system to absorb labour is limited. Under the heavy stress of war conditions, the Indian Railway system was able to absorb only 889,056 in 1943-44 as against 701,307 on its staff in 1938-39, and the history of railway labour is strewn

* Source : Indian Labour Gazette, for August, 1946, P. 64.

** "In 39 per cent of the stoppages, the question of wages and/or dearness allowance was the only cause of dispute"
- Indian Labour Gazette, August 1946, P. 64.

with incessant disputes, the last of which has only recently been settled. In spite of the fact that in 1943-44 we had 36,798.18 miles of major railways in our country, the Indian Railway system is hardly adequate to meet the transport demands of an expanding continental economy as our experience with the transport problems which emerged from the six years of war (1939-45) has amply proved, a subject deeper consideration of which must be reserved for the present.

It should be obvious that there are few fresh channels of diversion for the enormous population that this country has gone on accumulating, unless a gigantic programme of economic reconstruction of the structure of occupations to sustain an adequate standard of life in the rural and urban areas of the country is effectively implemented. It is, of course, patent that competitive direction of economic evolution in the country has bogged many channels of employment, as is evident from the fact that in India we do not find any extensive diversification of dairying or fruit-canning, and fishing is still undeveloped for a sub-continent like ours. Nor are possibilities of development of river-transportation and hydro-electric projects adequately explored. Naturally we learn : "The fisheries of India, potentially rich, as yet yield a mere fraction of what they could were they exploited in a fashion comparable to those of Europe, North America or Japan"¹ As regards hydro-electric energy in the country, only a fraction of the resources that could be harnessed has been exploited today; nor can the importance of power for greater and more diversified industrialisation for a country like ours be underrated, nor can the significance of diversification of industry for greater employment-

drive be missed in the period of post-war reconstruction of the economic life of the sub-continent, particularly when we learn that "India is severely handicapped . . as regards the generation of power by the consumption of fuel or coal or oil."* We learn on authority, that apart from the major rivers of the country, "nearly 6 million kilowatt with a maximum of 13 million kilowatt could be developed in India"† There is vast scope in this country for the development of river-valley projects, not only for purposes of developing electric power, but also for the general development of the economic resources of the regions covered by the course of the great rivers of the country on the pattern furnished by the TVA experiment in America.

The place of forests in any comprehensive scheme for the economic conservation of the resources of this sub-continent is yet to be properly realised. As early as 1862 it was submitted to the Home Government : "The idea that forest is a thing valuable in itself and . . . just as essential to the community as fields of wheat, sugar or cotton, took a long time to spring up, and . . . is not even now realised . . ."‡ and we have to be told in 1946: "the important role which the forests of a country play in its general commercial welfare and in providing employment for its population is not always realised"§ "With the opening up of forests, the 'extension of systematic working, the wider use of known products, and the possible discovery of new products, a steady and extensive development of industries dependent on the

* Indian Year Book 1945-45 P. 641.

† Indian Year Book 1945-46 P. 342.

‡ Vide Ibid P. 342.

§ Indian Year Book 1945-46 P. 661.

forests of India may be confidently anticipated in the future.”* The importance of proper conservation of forests for industries like furniture making, building and construction, boat and coach building, paper manufacture and many minor forest industries cannot adequately be exaggerated, as will be seen further down this book.

This foregoing short survey of the present economic position of this country must have demonstrated the peculiar contours of the economic landscape which the economic evolution of the country in the last hundred and fifty years has shaped. Here is a country with enormous pressure of population on rural resources, which every fresh acceleration in the rate of population goes on intensifying, where land has reached the virtual limit of economic exhaustion which is reflected in the low yield per acre, where population dynamics is vitiated by the impact of malnutrition which shows itself in the high infant mortality rates and the general lowering of the average span of life from census year to census year, particularly in the urban areas of the country : “it is in the towns that the highest infantile mortality is found,”† while statistics of infantile mortality in rural areas are not available. Among the eastern countries of Europe, in infantile mortality, Roumania topped the list with 175 closely followed by Bulgaria and Poland with 144 and 141 respectively, while in 1940 in India, Ahmedabad, with a higher general standard of living among the labour population, topped the grim list with 310.2 per 1000 live births, closely followed by Nagpur with 294.6

* Ibid P. 661.

† Indian Year Book 1945-46 P. 35.

and Hyderabad (Sindh) with 259.1 and among the bigger cities, Calcutta headed the list with 212.5 followed by Madras with 205.7 and Bombay with 201.5, all having infant mortality rates higher than the poorest zone of eastern Europe. The "mean" expectation of life in India is 23.02. "The evil effects of great poverty are far reaching," says Sir E. John Russell, "an infant mortality of 140 or more per 1000 births, a considerable incidence of diseases associated with under nutrition and malnutrition and a lower expectation of life than in the Western countries."* As regards the rural areas of our country we learn: "Malaria slays its thousands and lowers the economic efficiency of hundred of thousands; plague and cholera sweep the country from time to time; hookworm disease, Kala-azar and diseases arising from diet-deficiency insidiously reduce the labour power of the cultivating classes."† No grimmer comment on the impact of the existing standard of living on the health and efficiency of the population of this country is possible.

"No useful purpose is ever served," writes the leading un-official publication on the moral and material progress of India, "by shutting one's eyes to indisputable facts. The subject is no academic one ... In India the low standard of living and the steadily growing population constitute a disquieting combination, but the resources of the country are immense and there is no need for despair *so long as the different governments are determined so to organise the material and human resources at their disposal as to produce the maximum benefit to the*

* C.f. Agrarian Problems from the Baltic to the Aegean, P. 10.

† Report of the Royal Commission on Agriculture P. 482.

community." * Obviously within the existing pattern of economic administration, a good portion of the resources of the country and the economic energies of the population are not available to increase the amenities of life for the growing population of the sub-continent. There can be no more cogent explanation of the low standards of living obtaining in the country than that the present consumption propensity of the four-hundred million people has not been available either for stabilising the national structure of industrial and agrarian production or for generating a volume of external trade which might implement a rising standard of living in the country. Naturally the industrial structure of the country has been a rigid construction which is unable to sustain any considerable shifts and changes in the occupational structure of the country or withstand readjustment of wage standards - real wage-standards - to consolidate even the existing labour market. "The great majority of those employed", wrote the Royal Commission on Labour, "are at heart villagers and they retain some contact with the villages . . . even where workers live with their families in the factory areas, many of them look to some village as their home and do their best to retain contact with it."†

This state of affairs is brought about by our inability to understand the importance of the connection between primary production and the consumption propensity of the primary producers for progressive stabilisation of the industrial structure in any country. The importance of the observation that "Multilateral trading

* Indian Year Book 1945-46 P. 620-21.

† Report of the Royal Commission on Labour in India 1931 P. 12-13.

spreads adversity as certainly and as widely as it spreads prosperity"* not only in international trade, but also in inter-regional trade is scarcely fully recognised. In a country where no comprehensive programmes for the stabilisation of "the production and marketing of primary commodities"† are effectively implemented, there can be no economic stabilisation of the industrial structure, nor of standards of living, nor of wage-standards, nor of income structures, nor an integrated co-ordination of savings and investment ratios, nor can such an "economic system" be expected to contribute, in any appreciable manner, to the maintenance of an adequate structure of global economic relations to contribute to programmes of "full employment" abroad because in the language of Sir William Beveridge, "a vigorous demand at home and development of international trade are not alternative policies, but the two halves of one policy."‡ Failure to realise that "International collaboration with respect to internal expansion within each country must, moreover, be undertaken with a view to the promotion of international equilibrium"§ in the past was responsible for the widespread international economic distress which brought about "the breakdown of the world economy and indeed of international political security."+ in the years immediately preceding the recent Total War.

If India were a primary zone with broad acres and sparse populations, the problem of economic stabilisa-

* Sir William Beveridge. Full Employment in a Free Society, P. 259.

† Op. cit. P. 233.

‡ Op. Cit P. 211.

§ Hansen, op. Cit. P. 25.

+ Ibid. 72

tion of the country could have been adequately managed through the readjustment of price-fluctuations of primary products. India today is neither a 'primary zone' nor a metropolitan power; her economy is a subsistence economy in which, as the Royal Commission on Agriculture put it, "the ordinary cultivator on his tiny plot is still a man of small resources, with small means for meeting his small needs."* and "for generations he has been accustomed to a ceaseless struggle to extort a bare livelihood from an insufficient holding."† In such an economic conjuncture, price as the governor of the mechanism of economic adjustment becomes paralysed and generates economic forces which would seriously damage proper administration of primary resources with multiplier effect on the industrial structure of the country and distort the composition of consumption propensity of the population - both rural as well as urban. It is imperative that we realised that only an integrated programme of economic conservation of the consumption propensity of the four hundred million people of this subcontinent can avoid the catastrophe of a fast sinking standard of living within the country and adequately implement programmes of full employment for the metropolitan powers of the world. Mere sectional reconstruction of the apparatus of economic adjustment like price stabilisation schemes for primary products, wage standard regulations, diversification of industries and developmental projects, - unconnected and unco-ordinated with a comprehensive policy of economic conservation of the natural and human resources of the subcontinent would only create an unmanageable

* Report Royal Commission on Agriculture P. 14.

† Ibid. P. 432.

structure of rigid progress ratios which would, in the ultimate analysis, distort the economic evolution of the country for years to come by paralysing the industrial structure, freezing agrarian production and generating powerful forces which would rapidly disintegrate the structure of incomes and standards of living in the country. Nor can we adumbrate a scheme of occupational readjustment by mere management of urban 'real' wage standards, nor attempt to stabilise the dynamics of industrial progress through reconstruction of secondary markets, as these schemes, unless implemented as integral parts of a pattern of national economic stabilisation, would end in gross misdirection of the primary and secondary productive resources of the country and bring about an artificial structure of economic relations which would collapse at the first touch of powerful competitive economic impulses of international import, in the post war years.

It should be plain that without drastic management of occupational dynamics through an integrated structure of employment ratios, the growing volume of population in the country would press very heavily on the land resources of the country, releasing unmanageable forces of economic readjustment, the intensity and impact of which cannot be foreseen today, with disastrous consequences on the standards of living obtaining in the country. As it is we learn that in India inter-regional emigration "has always risen from the difficulty of finding an adequate livelihood in one's native place and this is the predominant force which impels the Indian villager to seek industrial employment."*

* Report of the Royal Commission on Labour P. 14.

Increasing pressure on land, growing volume of indebtedness, volatile standards of living, increasing rates of rent, severe fluctuations in agrarian income structure, are some of the factors which go to distort the composition of employment preference ratios in the rural zones and throw increasing volumes of people on the urban areas of the country* Such inter-regional shifts of population due to heavy acceleration of pressure on rural resources must in the ultimate go to contaminate not only the structure of urban wage-standards but also urban standards of living and ultimately the productivity of the industrial structure by severe distortion of the "costs" of factors of production. Already the menacing signs of such a tendency in the labour market are clearly visible: "Unemployment is certainly not unknown among Indian factory workers, but in the past it has been on a comparatively small scale. It is possible that, with an increase in the supply of labour, unemployment may assume greater dimensions, but (as the factory-population is ... made rather than born the question is mainly one of preventing the number of city workers from being swollen by men for whom there is no work."† Should acceleration in population growth and the consequent intensification of pressure of population on land resources generate heavy rural exodus, there is no mechanism to prevent urban wage-standards and standards of living from being contaminated by heavy inundation of the urban labour markets with rural populations except by drastic control of interregional movements of population by discriminatory legislation (which would be

* Cf. Report of the Royal Commission on Labour pp. 14-15.

† Ibid P. 34.

self-negating) or by providing alternative employment channels for the excess of population,* or by forcibly driving the population back to their places of exodus - all of which are only measures of despair and economic stagnation, since no instrument of economic adjustment but a comprehensive scheme of 'full employment', can reestablish the employment preference ratios which the inexorable march of economic evolution can construct. This problem of intensified pressure of population on the structure of employment preference ratios will assume gigantic proportions, as the dynamics of population-progress releases everincreasing volumes of people into the employable age groups and an uncoordinated demand schedule goes on progressively reducing the productivity of every branch of national production either by neutralising technical progress or by severe distortion of inter-national economic relations through the mechanism of foreign trade.

Naturally the greatest menace to any adequate programme of economic stabilisation is abnormal trans-continental mobility of labour which the growing pressure of population on the land resources of the country might inevitably generate in the country. The full incidence of such abnormal mobility of population across the country, which enormous population-pressure on the structure of employment inevitably generates not only on the general standard of life in the country but also on the structural and functional † aspects of primary as well as secondary

* A scheme of economic adjustment in which employment becomes an end and not a means to an end.

† Fear of unemployment in the past has been the fertile source and justification of resistances to technical change and of res-

production is not realised to day in all its grim aspects. There is no use trying to submerge the surging tide of population growth in this country under Malthusian dialectics, nor will any purpose be served in trusting neomalthusian instruments of population-control to bring about adjustment between population and production in our country. Population changes cannot be controlled or accurately predicted. As Sir William Beveridge would put it : "Man-power is a datum ; it cannot be altered by State action ; to take anything else as a datum and to try to fit use of man power to it is to risk mass unemployment or mass fatigue."*

Mass-movements of fugitive labour from a fast sinking rural standard of life under the accelerating pressure of population on the land resources of the country cannot be stemmed by the traditional instruments of economic adjustment, nor can the gradual deterioration of the productivity of the rural and urban structures of production be prevented by management of wage-standards, since catastrophic movements in wage-levels generated by the inundation of the labour markets of the country by abnormal population-movements would involve collapse of the structure of price-fluctuations in the factor-markets which would sterilise technical progress and paralyse the mechanism of adjustment between the Indian structure of primary and secondary production and the dynamics of international technical progress in the processes of production.

The only way open to avoid cataclysmic shifts and changes in the national structure of production reacting

trictions to output, open or covert" ... Sir W. Beveridge
Full Employment P. 197.

* Full Employment : P. 136.

to abnormal conditions in the labour market which are created by phenomenal trans-continental movements of population under a relentless pattern of employment preference ratios seems to lie in a three fold programme of adjustment of the structure of employment ratios, through synchronisation of the productivity of the primary and secondary structures of production to the abnormal dynamics of population through a comprehensive programme of national economic conservation involving (a) diversification, decentralisation, and regulated localisation of the industrial structure, (b) comprehensive circumscription of the structure of employment ratios through integrated programmes of development and conservation of the natural resources of the country through land-reclamation projects, through river-basin development projects, hydroelectric schemes, expansion and co-ordination of transport - rail-road, waterways, road and airways, adequate conservation of forest and oceanic resources, modernisation of handicrafts and cottage industries, exploitation of mineral resources and the development of complementary industry, to give a few of the important projects for accelerating employment ratio to synchronise with the tempo of population growth and (c) controlled movements of labour - inter-regional as well as inter-occupational.*

Such a programme of integrated conservation of the natural and human resources of this subcontinent

* Cf. Sir William Beveridge : Full Employment in a Free Society P. 29 et seq. Hansen : The Role of America in the World Economy pp. 30-31, including "Structural changes in the economies of undeveloped countries."

implies certain major trends in the structure of international economic relations, (a) it would imply in the first place, heavy movements of capital and capital goods which would undoubtedly transform the structure, composition and trend of India's foreign trade and involve reciprocal shifts and changes in the position of India in the international exchange markets, which would have its impact on the trend of price-fluctuations, volumes of saving and investment rates, income-structures, wage-standards, and functional and structural formation of the money - market in India : (b) it would mean drastic transformation in the structure and trend of total national outlay, and the existing ratio of outlay on consumption - goods, production-goods, instrumental-goods and communal outlay would undergo reciprocal readjustment ; (c) it would mean drastic readjustment of the productivity of the national structure of primary and secondary production to keep pace with the dynamics of total outlay in the country, (d) it would bring about integrated transformation of the financial policy of the Government and mean heavy strain on the money-market of the country as the financial operation of the Government begin to leave their impress upon the structure of liquidity preference ratios of the people through regulation of communal outlay and adequate circumscription of the labour market through management of wage ratios and the dynamics of primary and secondary cost-structures to synchronise then with the composition and trend of total national outlay to sustain the gigantic programmes of economic conservation of the natural and human resources of the country.

Nor can such a programme of comprehensive conservation of the natural and human resources of the country be adequately implemented without drastic elimination of all factors which might create divergences in the structure of progress ratios essential to sustain such a gigantic pattern of economic rehabilitation of the sub-continent. Such divergences may be generated either by artificial management of the structure of balance between Savings and investment, through distortion of interest -rates by an individualist money-market, or by fluctuations in relative prices arising either from the side of the cost structure or from shifts and changes in the volume and velocity of consumers' outlay, or by rapid movements of sectional structures of wages generated by the dynamics of sectional markets, or by violent shifts and changes in the purchasing power of the unit of account through either the distortion of exchange ratios or through changes in the volume of purchasing power uncoordinated with the liquidity preference ratios or the volume and velocity of the consumers' outlay during the period of economic reconstruction.

Such a regulation of economic evolution in the country with a view to maintain an integrated pattern of occupational balance, in a coordinated scheme of economic conservation of the sub-continent would imply reciprocal 'shifts and changes' not only in the structure of economic relations, but also in the structure and operation of the Government machinery. It would mean integrated regulation of the money-market and the banking operations, circumscription of the investment market through proper regulation of the stock-exchanges, regulation of the volume and velocity

of consumers' outlay, control of exchange - fluctuations, wage-rates, primary and industrial cost-structures through controlled injection of technical progress, regulation of industrial evolution to sustain a programme of diversification of the industrial structure and adequate localisation of industry, circumscription of transport to facilitate smooth movements of men and material over the subcontinent, control of urbanisation with a view to balanced development of backward tracts, regulation of inter-regional and inter-provincial, political and administrative relations to implement developmental projects like land-reclamation regulation of flows of rivers for river-basin and river valley development projects, hydro-electric power generation schemes, labour movements, inter-regional mobility of capital where necessary and possible, technical training schemes, inter-provincial transport adjustments, inter-provincial financial adjustments and the connected problems which might arise as the scheme progresses from stage to stage; nor can it go without adequate transformation in agricultural production, crop-schedules, adjustment of cattle population to land resources, development of rural transport, rural financial institutions, rural industries and the connected problems, it would also imply integrated transformation of the foreign trade of the country to withstand heavy movements of capital and consumption goods in the initial years and would imply shifts and changes in the structure, trend and content of exports consistent with the maintenance of an adequate structure of occupational balance and increased consumption propensity of the population -

rural as well as urban ; it would also imply transformation in the volume and intensity of 'communal outlay' like "outlay on non-marketable goods and services, and the means of producing them, including defence, order, public health, free education, roads, drains and other public works."*

It is needless to reiterate that the problem of economic development of India of which a coordinated structure of employment ratios forms an integral part is entirely different from "the problem of the savings-investment balance and of full employment - the central unsolved problem of economic theory and practice in the Capitalistic world", † of which America and England are prominent constituents. We are today in a world in which, "economic thought has shifted from the concern of the past decade with price-flexibility as a means to secure prompt economic readjustments, to the present concern with adequate national outlay to maintain full employment."‡ In such a world, India cannot hope to seek her economic balance in the global economic matrix with discarded instrument of economic rehabilitation. Nor can she long ignore the gigantic shadow of the Malthusian Devil which has fallen over our country from the Himalayan Range to the Cape of Comorin. Nor can she forget that because of its multiplier effect and because of the gigantic problem of maintaining an integrated pattern of employment ratios with an abnormal rate of population-progress, (it is even "better to employ people on digging

* Sir William Beveridge, Full Employment P. 132.

† M. Ezekiel in American Economic Review for May, 1946. P. 204.

‡ M. Ezekiel in Ibid P. 204.

holes and filling them up again, than not to employ them at all ; those who are taken into useless employment will, by what they earn and spend, give useful employment to others . . . ” because “enforced idleness is a waste of real resources and a waste of lives, which can never be made good, and which cannot be defended on any financial ground.”* The vast developmental programmes which are essential to equate national productivity with the dynamics of population will mean that India cannot pretend to maintain any semblance of economic and financial self-sufficiency and in the magnitude of the financial implications of the developmental programmes outlined, the sterling balances which the country has accumulated with Britain, and the total financial resources of the country today would only form a mere fraction. India will have to seek capital assistance from abroad for implementing her programme of economic rehabilitation in the post war days. She will have to enter any scheme of multilateral economic and financial relations which the United Nations might adumbrate for the development of the backward and undeveloped parts of the world. In this connection it would be well to remember Sir William Beveridge’s words, that “Britain must have international trade up to a certain minimum ; she has an interest in common with other countries in rebuilding international trade not merely to that minimum, but to a maximum, so that all may benefit to the largest possible extent from the saving of toil and effort which can be achieved through the international division of labour.”† It is also patent that “international investment can be (and should be managed) managed in a

* Sir William Beveridge, *Full Employment*, P. 147.

† *Full Employment*, P. 215.

way to promote (a) high levels of employment and production in the great industrial countries, (b) rising living standards and productivity in the borrowing countries and (c) world-wide economic stability.”* The implementation of smooth movements of heavy funds across the world is an adventure which can only be achieved by delicate balances in the structure of economic relations, internal as well as international. India cannot forget “the inescapable fact that it lives in a world of many nations, and that its own well being is furthered by the making of international agreements.”†

¶ The economic evolution of the world in the recent years has smashed “all hopes for the restoration of the pre-war economy.”‡ We need have no apprehensions regarding the great economic future for this country because : “There is a new outlook abroad in the world today. Now, everywhere the note is sounded that development, diversification and industrialisation must be undertaken in the backward areas.”§ It is almost axiomatic that multilateral economic relations can only exist among countries which undertake adequate implementation of programmes of full employment. “A country which aims at full employment in making plans for international trade, must have regard to the internal policies of those with whom it plans to trade : *must consider whether these internal policies are or are not likely to lead to stable full employment.*”||

If India wants to have a respectable place in the

* Hansen in op. cit. P. 159.

† op. cit. P. 181.

‡ op. cit. P. 15.

§ Hansen, op. cit. P. 19.

|| Sir William Beveridge in op. cit. P. 225.

international economic order of the post-war days, and to enjoy the full benefits of technical advance and economic progress of the new world that is in the making, she must engage herself in a comprehensive programme for rebuilding her economic fabric to sustain adequate pattern of occupational balance for her growing population and maintain, at the same, time, a consumption-propensity for her vast population which will not only balance her structure of urban and rural production at full employment levels, but also assist in implementing 'full employment' among the other nations of the world.

It is only thus that India can find her economic destiny in the future economic order of the world. She must integrate the dynamics of her future economic evolution with the progress-ratios of a world which is waking to an urgent realisation of the conservation of global resources, natural as well as human. The detailed study of the economic implications of such an endeavour for this subcontinent and its ramifications in the different branches of economic evolution like agriculture, industry, transport, the money-market, the nature and functions of the machinery of public administration, and foreign trade will form the subject matter of the following chapters.

CHAPTER II.

FULL EMPLOYMENT AND AGRARIAN ADJUSTMENT.

“Of all the factors making for prosperous agriculture,” wrote the Royal Commission on Agriculture bringing its report to its conclusion, “by far the most important is the outlook of the peasant himself. This is determined by his environment, and the advancement of agriculture must depend upon the creation of conditions favourable to progress. If this conclusion be accepted, the improvement of village life in all directions assumes at once a new importance as the first and essential step in a comprehensive policy designed to promote the prosperity of the whole population and to enhance the national income at the source. The demand for a better life can, in our opinion, be stimulated only by a deliberate and concerted effort to improve the general condition of the country side.”* The problem of a rising standard of life for our country is inextricably interwoven with the problem of our agrarian prosperity which today “is one of subsistence farming at a low standard of living....”† “with some production for the market to buy cheap manufactured consumers goods. The surplus available per farm worker or per holding to meet the needs of non-farming population is small, and the income available to purchase services or manufactured goods is meagre.”‡

* Report P. 672.

† Horace Belshaw : in Discussion on Economic Problems of Foreign Areas-American Economic Review, May, 1946 P. 652.

‡ Ibid P. 653.

This brings out the outstanding feature of India's economic evolution in the last hundred and fifty years—the inability of the consumption propensity of rural population to either create or sustain an adequate structure of diversified industry in order to implement an adequate pattern of occupational balance which would have brought about a universally high standard of living in the country, together with sympathetic transformations in the course and content of foreign trade ; and also brings into correct relief the economic conjuncture which has been set up in which agrarian production is unable to balance itself in the national economic system. Naturally the Royal Commission on Agriculture, whose outlook was delimited by the economic knowledge that it could then command, felt urged to emphasise in unequivocal terms : “If the inertia of centuries is to be overcome, *it is essential that all the resources at the disposal of the state should be brought to bear on the problem of rural uplift.*”^{*} They must have felt it their duty to emphasise that *the stability and solidarity of the structure of economic relations in the rural as well as in the urban areas of the country depended upon the stability and solidarity of its agricultural economy.*

It should be axiomatic, then, that any adequate scheme of general economic stabilisation for the country, of which transformation of the structure of occupational preference ratios is an integral part, must start with economic stabilisation of agriculture. Agriculture in India today is unplanned ; price-fluctuations in primary markets create abnormal mis-management of crop schedules ; agrarian production is scattered among atomistic farms ; the rural cost structure is inflexible ; agrarian indebtedness is chronic ; marketing is

* Report P. 673. Italics mine.

inefficient and uneconomic because of the difficulty of standardisation of agrarian products and the intervention of middlemen due to the rigidities of the rural money-market and the financial incapacity of the farmer; if we add to these factors the normal *resistances* that obtain in primary production to the dynamic of price-formations in the primary market, and the uncertainties of natural factors which determine the volume of agricultural production, we shall be able to understand the factors which have been responsible for incapacitating our rural production to balance any adequate structure of industrial production or to restore occupational balance for a growing volume of population emerging every year into the employable age groups. This explains the strange economic structure in India where, "the urban population is small,...the cultivating classes have no incentive ..to produce food grains and other agricultural products in excess of their own needs, and .. the incentive provided by a local demand is small. In such conditions, they are apt to rest content with the production of sufficient to eat and drink and the wherewithal to clothe themselves"*.

The peculiar difficulties of essentially agricultural countries like resistances in production to price-fluctuations in the primary markets, relative inelasticity of demand to price-changes, 'erratic fluctuations' in production due to natural factors like rainfall, soil-peculiarities and pests, and 'uncertainties' of demand due to speculative 'inventories in industrial consuming countries' are further magnified in those countries where agricultural production is organised more for subsistence than for the market.† In such an economic

* Report, Royal Commission on Agriculture pp 5-6.

† Cf. International Currency Experience, P. 192 et seq.

conjuncture the effects of price-fluctuations on the allocation of land resources to specific crops are bound to be highly erratic and unpredictable, as in the case of groundnuts and sugarcane cultivation in recent years in our country. Thus from 1938-39 to 1940-41, the yield of rice had declined from 25,364 thousand tons to 22,191 thousand tons, and wheat from 10,752 thousand tons to 10,005 thousand tons, while groundnut had increased from 3,148 thousand tons to 3702 thousand tons and cane sugar from 4,590 thousand tons to 5,807 thousand tons and cotton and jute also had shown definite tendency towards expansion of production. Thus cotton, in the same period, has spread itself, from 13,887 thousand acres in 1938-39 to 14,083 thousand acres in 1940-41, jute from 3,125 thousand acres to 4,296 thousand acres, rape and mustard from 2,977 thousand acres to 3,685 thousand acres, sugarcane from 3,154 thousand acres to 4,562 thousand acres, because the sugar industry had expanded from 57 factories in 1932-33 to 151 factories in 1943-44.

Such erratic fluctuations in the administration of agrarian resources of the country have a powerful impact on the structure of agricultural incomes, the composition of foreign trade (particularly on the capacity of the country to sustain a growing volume of imports) and the level of agricultural employment. Thus we read, barring the year of record trade in 1920-21 and the abnormal conditions of production in the war years, 1939 to date, the history of Indian agriculture is a chronicle of intermittent and progressive depression.* Of 1921-22 we

* "In March 1920 the value of India's exports had reached the record figure of £21 millions"—Handbook of Commercial Information, P. 138.

learn, "though the monsoon was satisfactory.... 1921-22 was a year of unrelieved depression."* Of 1926-27 we are told, "This year showed a considerable decrease in export trade."† In 1928-29 "due to deficiency of the monsoon,.....the exportable surplus of India.....was considerably reduced."‡ "Notwithstanding a favourable monsoon", in 1930-31, "a decline of 20 per cent..was witnessed in export trade."|| "The year 1931-32 was ever more disastrous than the previous year.,'‡ In 1935-36 "The export of raw cotton and tea registered a decline."÷ Of trade trends in our country we learn on authority : "In a year of seasonal prosperity, India is able to grow wheat and rice in excess of the needs even of her vast population, and her shipments of food grains with those of raw cotton, raw jute, raw hides and skins and oil-seeds constitute one half of her total exports. During the war (of 1914-18) exports of manufactured or partially manufactured goods.....reached its peak. *The trend of the trade in later years is marked by variations and it has now (1937) declined below the pre-war level.*"× The decline being noticed in the following articles : raw jute, jute manufactures, raw cotton and cotton manufactures, grain, pulses and flour, oil-seeds, metals and ores and oils, among the articles of export.

✓ The eminently seasonal character of agrarian employment coupled with enormous price-fluctuations

* op. cit. P. 138.

† op. cit. P. 139.

‡ op. cit. P. 139.

|| op. cit. P. 140.

‡ op. cit. P. 140.

÷ op. cit. P. 141.

× Italics Mine, Handbook of Commercial Information, P. 131.

in primary markets complicates the problem of agrarian production, employment ratios and income-structures which ultimately reduce the capacity of countries with dominant subsistence types of agrarian production either to maintain a progressive volume of imports or to sustain the economic weight of an expanding industrial structure. That explains why, in India, as the Indian Industrial Commission complained over quarter of a century ago : "the effect of the use of imported and factory-made articles on the standard of comfort of the rural population has been, however, generally small.* This peculiar rural economic conjuncture also explains why, "while during the last half century, there has been considerable progress in respect of the investment of capital, it has been upon comparatively restricted lines and there has been little enterprise in new directions. In consequence, the major industries of India are few in number and have been..confined to the textile and leather industries and to mining".† As late as 1944 for a total labour population in all factories of 2.5 millions, the cotton industry consumed 654,430 labourers and jute mills accounted for 288,663 labourers, while general engineering, a special industrial branch created by abnormal conditions of the war of 1939-45 absorbed 109,068 workers, iron-melting and steel rolling 58,497 labourers and rice mills, 48,095 workers these constituting the major sections of the industrial structure of the country. The accompanying table demonstrates the stunted industrial structure which a subsistence agrarian economy has been able to sustain :—

* Report of Indian Industrial Commission P. 7.

† Indian Industrial Commission, Report, P. 210.

	1939	1940	1941	1942	1943
Grand total					
All factories	1,748,561	1,844,428	2,156,377	2,282,237	2,436,312
Textiles	838,985	829,162	953,320	965,459	1,001,893
Engineering	143,257	158,665	204,056	223,820	253,947
Minerals & Metals }	51,746	62,357	76,162	82,493	92,694
Drinks & Tobacco }	87,005	104,038	119,888	121,311	124,736
Mines : Total	301,054	329,770	347,018	357,646	349,361

This sad state of affairs is the direct consequence of the inevitable inter-connection between the economic potential of primary production and the stability, solidarity and flexibility of the industrial structure not only inter-regional, but also international. The capacity of the industrial structure to absorb growing volumes of labour depends upon the flexibility of the industrial system and its capacity for expansion, which is, *mutatis mutandis*, conditioned by the consumption propensity of the agrarian population which alone can guarantee an expanding market for industrial products. It is axiomatic that an agriculturally poor country cannot pretend to maintain an industrial system either with a high degree of productivity, or with an economic competence to maintain an integrated pattern of employment ratios. In such an economic conjuncture, the normal rate of population progress creates abnormal changes and shifts in the per capita income of the population with cumulative incidence on the general standards of living in the country, born of progressively intensifying pressure on the structure of the employment preference ratios of the population, as has happened in

the case of the agrarian countries of Eastern Europe and the 'subsistence economy' zones of the Asiatic continent.

Equalisation of population pressure on the occupational structure of a subsistence economy can only be effected by simultaneous development of employment channels and any attempt to balance occupational pressure through sectional reconstruction of the economic system would sterilise itself in a bewildering multitude of economic vicious circles: thus in a subsistence economy consumption propensity of the primary producers cannot be augmented without transformation of their money and real incomes; reconstruction of the income structure is contingent on management of price-fluctuations in the primary market, price stabilisation-programmes in primary markets because of erratic resistences both in primary production and in the primary market would neutralise themselves unless accompanied by mechanisation and commercialisation of rural production, which, in the occupational structure of a subsistence economy, would involve lifting of employment pressure on rural economy through adequate readjustment of urban wage standards and employment rates. Such readjustment of 'costs' to prepare the industrial structure to withstand heavier employment pressure cannot be implemented without drastic cost structure readjustments through incorporation of technical progress, which would end by contaminating urban employment rates or through readjustment of industrial price-formations which might affect the velocity of circulation of industrial products and the productivity of the industrial structure or through diversification of the industrial system which cannot be sustained without drastic readjustment of rural consumption propensities to implement it. All this analysis points to

the inescapable conclusion that the mechanism of economic adjustment of a 'subsistence economy' cannot be reconstructed to maintain integrated structure of employment rates to sustain a rising standard of living in rural and urban areas, with the apparatus of economic administration set up by a "market economy". The incessant endeavour to seek economic balance between the cost-structure and price-formations of a market economy, the uncertainties governing the trends of production through greater technical progress, the patent resistences in the adjustment between price-fluctuations and the dynamics of production, primary as well as secondary, the incessant inter-regional and international movements of commodities which price-fluctuations generate and the consequent shifting and reshifting of primary and secondary markets, the erratic distortions of price-formations through speculation and through changes in the purchasing power of the unit of account and the consequent psychological pressure on the composition of liquidity-preference ratios-all these have the effect of paralysing any normal operations of forces of economic readjustment of a 'market economy', in the creation and maintenance of occupational balance in a subsistence economy.

It should be obvious, then, that any adequate programme for raising the standard of living rural as well as urban and keeping the employment capacity of the structure of primary and secondary production within the frame work of 'market economy' cannot be achieved without an intricate structure of balances among various economic changes and shifts to keep the regional economic evolution properly equilibrated with the dynamics of employment 'pressures' brought about by population changes, and elimination of all economic factors which might cause discrepancies in the adjust-

ment of economic and technical ratios of progress and this feat is not an easy feat when the forces making for discrepancy in the structure of economic balance may be brought about by either economic factors or non-economic factors reacting to and influencing the structure of relative scales of preference of a 'free market' in goods and services.

The argument, therefore, for regulation of economic evolution in countries where subsistence economy grossly distorts production and income structure adjustments to the dynamics of competitive price formations in an open market for factors and goods, is, indeed, overwhelmingly impressive. As Professor Blodgett might postulate : "A planned economy could provide a degree of economic stability such as we have never known under Capitalism. It could keep the wheels turning and the factories producing, and it could avoid those tremendous swings of boom and depression which have marked the operation of our capitalistic system. It could provide full employment according to almost any definition which was considered suitable and, within wide limits, it could devote almost any share of the national income to the purpose of social security...on the whole, if we rated stability, security, and relatively equal division of income rather high on our list of economic preferences, we might like to live in a planned economy"* This is not to under-rate the hazardous task of comprehensive management of all economic and technical factors of progress and the difficulty of reducing the rigours of "centralised administration of productive resources" and controlling consumption-propensity of the population through

* R. H. Blodgett, "The Impact of Total War : Am. Ec. Review for May, 1946, P. 136.

artificial regulation of liquidity preference ratios by drastic management of income-structure and price-formations in all planned markets, not to speak of the distortions which international factors of economic and technical change might create by affecting productivity of primary and secondary units of production and through distortions of the terms of exchange especially in external trade between 'planned zones' of economic evolution and unplanned markets of competitive economics dominated by the uncertainties of 'monopoly' price-formations. These arguments are advanced only to substantiate Sir William Beveridge's observation that, "full productive employment cannot be won by waving a financial wand; it is a goal that can be reached only by conscious continuous organisation of all our productive resources.... To win full employment and keep it, we must will the end and must understand and will the means,"* And the statement has special import for zones of 'subsistence economy' like India, where the impact of forces of competitive world economic evolution has created patent rigidities in the mechanism of economic adjustment and damaged the capacity of the primary as well as secondary units of production to absorb employment pressures of a dynamic volume of population at any adequate standards of living.

It needs no reiteration that the economic problem of 'subsistence' zones is, what, Sir John Russell has called, the problem of "too many people and too little capital"† with the inevitable consequence that "over-population reduces the standard of living and the cash

* Full Employment, P. 16.

† Agrarian Problems from the Baltic to the Aegean P. 10.

resources of the individual peasant... No agricultural improvement which needs capital can be carried out, the yield per acre declines; and the consumption of overseas agricultural exporting countries, with technical aids at their disposal, reduces the possibilities of export, especially since the fall of world prices. This in turn lowers the income per head of the rural population, and reduces the internal market. Still less money is available for improvements, or for educating the farming population in new directions.. The main effort must therefore, be directed towards a reduction of redundant labour on the land.”* Even more advanced primary zones of the world are not free from the serious rigidities in economic evolution generated by erratic price-formations in the primary market. “Agricultural production being closely dependent on local peculiarities of soil and climate, the export trade of such countries is, or used to be, concentrated to a high degree on one or only a few staple products. Without much exaggeration agricultural countries would often be characterised as ‘one crop countries’... Agricultural countries experience depression mainly through a fall in export prices, producer’s incomes and capacity to import. It is true that certain areas of peasant farming in eastern and south-eastern Europe, parts of Asia, etc., have suffered from a form of unemployment known as ‘disguised unemployment’, but that has been a chronic rather than a cyclical phenomenon. These areas could have produced the same output with a much smaller labour force, *but lack of capital for domestic industry combined with lack of emigration opportunities has tended to keep the surplus population on the land at bare subsistence levels.*”† The problem of subsistence

* ‘Peasant life and Labour’ in Agrarian Problems PP. 54–55.

† International Currency Experience, 1944, PP. 192–93.

zones, like India, is essentially that of "creating a community in which men and women have value"* or of implementing a scheme of economic readjustment in which "the great problem of the area today, that of over-population, can be turned into its greatest wealth"†

Such a scheme of economic readjustment for 'subsistence' zones will have to start with the recasting of crop schedules to prepare agricultural production to maintain an integrated degree of 'full employment.' At present the allocation of land resources among different crops in India is determined by the patent exigencies of a subsistence economy, because in subsistence zones "lack of capital drives peasants to grain production" and price fluctuations in the primary market produce erratic allocations of land resources devoted to "money crops" because of the intensifying pressure of the dynamics of standards of living and of structures of money incomes on the pattern of allocation of land resources between 'subsistence' crops and 'commercial crops'‡

ALLOCATION OF LAND RESOURCES BETWEEN
SUBSISTENCE CROPS AND MONEY CROPS INDIA.

(In thousands of acres)

Crops	1931-32	1938-39	1939-40	1940-41
Food grains Total	190,579	186,257	187,050	187,148
Sugar & other food crops. (increase in sugarcane)	10,171	9,914	10,401	11,298
Oil-seeds	14,123	16,187	16,294	16,701
'Money' crops	43,772	47,413	47,124	49,538
Net area sown	211,365	209,400	209,960	213,963
Cultivable waste	95,104	94,180	97,188	97,860
Fallow land	44,796	48,302	47,328	45,253

* Sir William Beveridge. Full Employment, P. 121.

† Agrarian Problems, P. 86.

‡ cf. Royal Commission on Labour Report, P. 14.

While the area under food grains has shown a tendency towards contraction, the area under the so called 'money crops' has betrayed abnormal expansionist trends. Thus the acreage under sugarcane increased from 2,999 thousand acres in 1931-32 to 4,562 thousand acres in 1940-41; similarly the area under jute increased from 1,845 thousand acres in 1931-32 to 4,296 thousand acres in 1940-41 until compulsory restriction of acreage under jute was invoked in 1941. Similarly cotton which occupied 14,258 thousand acres in 1931-32 had spread itself over 20.4 million acres in 1943-44.*

Thus the impact of 'commercialisation' of agrarian production on the structure of subsistence economy has been towards dilimitation of the industrial structure through centralisation and localisation of industries which is plainly visible in the textile and sugar industries. Thus the Indian Industrial Commission complained several years ago : "A visible sign of this movement may be seen in the abandoned stone cane mills lying near villages in the arid plains of Central India, which now prefer to keep their scanty stores of water for other crops and pay for their sugar by the sale of their cotton."† Today the sugar industry has been very heavily localised in the two provinces of the entire sub-continent, United Provinces and Madras.

In 1944 the sugar industry employed 427 labourers in Madras and 5519 persons in the United Provinces‡ and for a total acreage under sugarcane of 4,402,039 in 1940-41, for the whole of India, the United Provi-

* Vide Indian Year Book 1945-46 P. 302.

† Indian Industrial Commission Report P. 3.

‡ Indian Labour Gazette for January 1946, P. 224.

nces alone had 2,517,654 acres under sugarcane, Punjab having 549,173 acres, Bihar coming next with 508,200 acres, and Bengal following with 331,100 acres, with Madras coming next with 161,716 acres, though sugar cane was being cultivated in all the provinces of India without exception; seasonal factories in sugar being distributed in the other Provinces such as Madras, Bombay, Bengal, United Provinces, the Punjab, Bihar, Orissa and the North western Provinces, with Sindh C. P. and Berar, Assam, Ajmer-Merwar and Delhi being left out of the picture.* Similarly the cotton textile industry is very heavily concentrated in Bombay, the Province absorbing 397,005 labour for the year 1944, Madras following with 91,438 labourers, with the United Provinces coming next with 56,157 followed by Bengal with 43,527 labourers and Central Provinces with 29,826 labourers.†

Any attempt at transforming agrarian income structure as an integral part of a comprehensive scheme for raising general standard of living in the country cannot leave the structure of agrarian production untouched by the new forces of economic stabilisation. No improvement either in the technique of agricultural production or in the general structure of crop schedules is attainable without adequate adjustment of population-pressures to the productivity of rural productive resources; and this implies drastic reconstruction of the employment preference ratios of the population emerging into the employable age-groups which can only be effectively implemented by diversification

* Vide Indian Labour Gazette for January 1946 P. 226.

† Ibid P. 222.

of the industrial structure, by heavy developmental programmes including irrigation and river-basin projects, by extensive reclamation of land and by adequate adjustment between the unit of agrarian production and its rate of labour absorption through greater mechanisation and improvement in farming processes, and the enhancement of the capacity of the general industrial system to maintain a progressive rate of employment without any serious impairment of its productivity.

In such a scheme of economic readjustment the most urgent problem is that of adjusting the rate of production of food to a fast growing volume of population, without impairing the productivity of the unit of primary production. The productivity of agriculture today under the inevitable technical limitations of a production scheme for subsistence is definitely low.

YIELD PER ACRE OF CROPS IN 1938
in lbs.

Country	Rice	Wheat	Cotton	Rapeseed
Italy	4,928	1,434	—	—
Argentina	—	1,053	156	—
Korea	2,464	—	—	—
Siam	1,299	—	—	—
India	834	728	97	420
Egypt	3,136	1,882	440	—
Germany	—	2,464	—	1,769

The above table demonstrates that in every kind of crop, India has ample scope for reducing the acreage that she devotes today—the margin of difference between India and the other countries being widest in rice, wheat and cotton. The attack on low

productivity of Indian agriculture must come from several directions without which no reconstruction of rural economic life is possible like irrigation, soil conservation through more scientific manuring and use of chemical fertilizers, improvement of implements, widening the base of the unit of agrarian production through consolidation of holdings and greater land-reclamation from wastes and fallows, and finally stabilisation of agricultural income-structure and their integration into the general income-structures of the country; the fundamental fact in all schemes of rural reconstruction in this country being the impossibility of implementing any scheme for large scale farming, at least for a considerable time, till programmes of economic stabilisation of employment pressures on the economic structure of the country have had time to balance themselves and bring about an adjustment between employment-pressures and the productivity of the national economic system through an integral structure of rural and urban standards of living. In this regard it is imperative to realise that "grain production . . . is suited to the wide open spaces of North America, Australia, or the great plains of the U. S. S. R., where there is far more land than can be closely occupied, but it is much less appropriate to regions where there is pressure of population on land,"* though the economic impact of grain production on the structure of agricultural income may be reduced under an integrated scheme of general economic stabilisation where the rigours of price-formations on agrarian income structures are adequately regulated ; in India the

* Sir E. John Russell, *Agrarian Problems*, P. 10.

economic and 'occupational' implications of large scale farming are too immense to be missed, when we note that about seventy five per cent of the four hundred million people of this country are dependent on agriculture, directly or indirectly, for their livelihood. Large-scale agriculture, unless implemented as part of a comprehensive scheme of land-reclamation, will only mean such terrific shifting of the occupational structure of the country that the economic system will collapse under the economic weight of such a scheme of readjustment of employment pressures since such a reorganisation of agricultural production would fling at least two hundred and fifty million of people on the non-agricultural occupational structure of the country which, obviously, the economic system of the country cannot stand.

On the agrarian front, therefore, economic stabilisation programme can only arrive through better balancing between grain production and cultivation of what Sir E. John Russell has called "high nutrition" crops "with the use of more fertilisers and better animal husbandry, (which) will yield far higher return per acre and per man than grain, it will then give a higher standard of life to the countryman."* This shift in agricultural production would imply certain readjustments in the composition and trend of our foreign trade, unless transformations in the urban income structure and standards of living are adequate enough to economically balance the new 'production schedule in the rural areas. This would imply pheno-

* Agrarian Problems P. 11.

menal transformation in the existing crop schedules, a topic to which we shall presently turn.

Adequate balancing of agrarian production schedules between cereals and 'high nutrition' farming would not only mean fundamental change in the crop-schedule of the irrigated zones of the country, and a higher specialisation of agrarian production, but also phenomenal extension of the existing irrigated zones through river-basin and river-valley developmental projects, construction of monsoon catchment projects in those tracts of the country placed in the monsoon 'zone', further reclamation of land for grain production, better distribution of staple primary raw materials for the decentralised and diversified structure of industry which will form an integral part of general economic rehabilitation of the occupational structure for the growing volume of population in the country; and better distribution of the pressures of employment on the unit of rural production through greater mechanisation and improvement in the general technique of agrarian production.

It is idle to pretend that a 'subsistence economic zone' can attain 'full employment' standards of living or 'full employment' productivity in agriculture without far-reaching schemes of reconstruction of agricultural population. If the industrial countries are suffering from 'unemployment' of two types : structural, generated by the impact of technical progress on the structure of industry and 'frictional' brought about by a shifting of demand, 'subsistence zones' are suffering from 'disguised unemployment' created by heavy employment pressures on agricultural and industrial

production, which go on progressively impairing the productivity of the national structure of production, while the productivity of labour itself is grossly distorted by the impact of a progressively deteriorating standard of life and a low level of communal outlay. If subsistence zones are to attain full employment levels in productivity, income structures and 'standards, of living', drastic management of employment-pressures on the rural as well as on the industrial structures of production are rendered inevitable. This implies, *mutatis mutandis*, regulated demobilisation of labour from areas of employment-congestion along with raising of the productivity of labour, as well as, of the agrarian and industrial structures of production through adequate technical reconstruction of national production and diversification of the occupational pattern through decentralisation and more efficient localisation of industry.

One of the essential features of a full employment policy is, as Sir William Beveridge would put it, "not mobility of labour, but organised mobility". Mobility of labour, in a subsistence economy, is always vitiated by the presence of patent rigidities and inhibitions peculiar to 'employment-preferences' of a subsistence labour market. Naturally the period of reconstruction which is only that of transition from 'subsistence economy' to that of economic stabilisation with full employment income structures and standards of living will have to create employment conditions in the country to withstand heavy interoccupational movements of labour.

It is obvious that the problem of ensuring 'full employment' levels of occupational balance and stan-

dards of living for a country with a subsistence economy like India can only be ensured by a process of economic reconstruction which would carry the economic system of the country through definite stages of economic transition, from 'subsistence' stage to a stage of high degree regional economic self sufficiency to sustain the requisite degree of equalisation of employment pressures on the regional occupational structure and from regional economic self-sufficiency to inter-regional multilateral trade to maintain an adequate structure of inter-regional economic relations to implement a widening range of occupational 'balance' throughout the country, which can only be sustained under an integrated pattern of adequate total outlay to maintain balance of employment pressures on the regional occupational structures through efficient localisation of industry and organised inter-occupational and inter-regional mobility of labour; and finally, to the stage of maintaining international economic relations through controlled specialisation of regional production with a view to sustain agricultural and industrial income structures, rural and urban wage-standards, rural and urban consumption propensities, and total national outlay at 'full employment' levels.

It is needless to reiterate that regional self sufficiency would mean recasting of crop schedules and reshifting of the existing regionalisation of crops consistent with soil properties obtaining in the different parts of the country. India has four distinct soil groups : (a) the red soil zones comprising of Madras, Mysore, south east regions of Bombay, eastern part of Hyderabad, Central Provinces, Orissa, southern Bengal and Chota Nagpur areas : (b) the black cotton

(regur) soil zones comprising of the Deccan traps, western regions of Bombay, western zones of Central Provinces, Hyderabad, Bundelkhand and Berar regions; (c) the alluvial zones comprising of the river basins and valleys of the Indian subcontinent, together with the great Indo-Gangetic plains comprising of the United provinces, Sindh, specific regions of Rajputana, major regions of the Punjab, and parts of Bengal, Bihar and Assam (d) and the laterite zones of Bengal, Assam and the peninsular belt.

under the impact of the economics of subsistence production, the problem of soil conservation has not received adequate attention, and the distribution of crops over soils has been haphazard. Thus rice happens to be very heavily regionalised in Bengal which has spread over 30% of the total acreage devoted to rice in India in 1940-41, with Madras coming next with 10·7 million acres followed by Bihar with 9·2 million acres. Central Provinces and Berar come next with 5·8 million acres, Assam coming next with 5·4 million acres followed by Orissa which had 5 million acres under rice. Similarly wheat was heavily regionalised in the Punjab with 9·9 million acres under the crop, with the United Provinces following closely with 7·9 million acres and the Central Provinces coming next with 3·2 million acres. Barley was heavily regionalised in the United Provinces with 3·8 million acres, Bihar coming next with 1·2 million acres, jowar was again heavily localised in Bombay with 8·1 million acres or 40% of the total acreage for India with Central Provinces, Madras and the United Provinces following with 4·5 million acres, 4·6 million and 2·2 million acres respectively. Bajra was localised in Bombay, with

the Punjab closely following with 3·8 million acres with a 'balanced distribution' of the crop in United Provinces and Madras. In Ragi, Madras led the list with 1·7 million acres or about 48 per cent of the total acreage for India with Bombay and Bihar closely following. In maize, the United Provinces came first with 2·1 million acres closely followed by Bengal and the Punjab. In all food grains heaviest precipitation was noticed in the United Provinces which led the list with 37·3 million acres for a total of 187·1 million acres for the whole of India, Madras coming next with 26·2 million acres, followed by Bengal with 22·7 million acres, the Punjab with 22·2 million acres, Bombay with 20·2 million acres, the Central Provinces with 20 million acres and Bihar with 19·1 million acres.

In oil-seeds, Madras headed the list with 5·6 million acres for an all India total of 16·7 million acres, closely followed by Bombay with 2·5 million acres, the Central Provinces with 2·3 million acres (of which linseed alone occupied 1·2 million acres) and the Punjab with 1·48 million acres, Bihar and Bengal bringing up the rear with 1·45 and 1·12 million acres respectively. In sugar cane, the United Provinces held more than fifty per cent of the all India acreage, 2·5 million for 4·4 million acres with the Punjab and Bihar coming next with ·54 million acres and ·50 million acres respectively. In cotton Bombay topped the list with 3·8 million acres, the Central Provinces coming next with 3·5 million acres followed by the Punjab with 2·6 million acres, Madras with 2·4 million acres and Sindh with ·9 million acres. Jute was very heavily concentrated in Bengal with fractional distribution of the crop in

Assam and Bihar, the production of jute in N. W. Frontier Provinces and the United Provinces being almost negligible.

Nor is this all. The yield of the same crops differs from locality to locality and even in the same locality from year to year. This is due partly to interregional differences in soil fertility and partly to steady deterioration of soil fertility in the same region from year to year. We learn "the fertility of the agricultural land is deteriorating steadily on account of the absence of manure. The yield of different crops has become less and less."* Thus Bengal registered a fall of 80 lbs in the yield of wheat per acre in 20 years from 1906-7 to 1926-27 and 212 lbs in winter rice, 70 lbs in gram and 9 lbs in rape and mustard. And among provinces in 1939-40, in linseed, Bengal had the highest yield per acre with 428 lbs, United Provinces closely following with 420 lbs, Bihar and Orissa coming next with 294 lbs and Central Provinces coming last with 196 lbs. Similarly in rice, Madras led the list with 1806 lbs per acre, Bengal coming next with 998, Bombay following with 871 lbs, and Sindh with 860 lbs. the lowest yield coming from Assam with 638 lbs. So too in wheat, Bihar came first with 865 lbs, Punjab with 810 lbs, the United Provinces and Sindh coming next with 725 lbs and 724 lbs per acre respectively, Bombay coming last with 393 lbs per acre.

There is further variation in the average yield per acre within the same province from locality to locality

* Report of the Bengal Provincial Banking Enquiry Committee pp. 21-22.

and even in the same locality from plot to plot, one of the special features of agrarian production of the 'subsistence' type with units of primary production scattered in the hands of small cultivators which further complicates efficient administration of rural resources in addition to the normal factors of soil fertility, irrigation and other natural factors which determine the productivity of the unit of cultivation. Thus for the whole of India, yield per acre showed erratic trends, as the Royal Commission on Agriculture has attempted to show in the course of its Report. Thus from 1914-15 to 1926-27 average yield of rice for the whole of India varied between 830 lbs in 1926-27 and a maximum of about 995 lbs between 1917 and 1918 ; the lowest being about 700 lbs for 1918-19. Similarly wheat oscillated between 575 lbs for the midperiod of 1920-21 and a maximum of about 780 lbs for 1921-22. Cotton yields varied between a minimum of 65 lbs for 1917-18 and a maximum of 98 lbs for 1919-20 ; jute between a minimum of about 930 lbs in 1920 and a maximum of 1290 lbs for 1917.*

These variations in yield even in the same region from year to year are explained by the Agricultural Adviser to the Government of India in his evidence before the Royal Commission on Agriculture when he observed, "Most of the area under cultivation in India has been under cultivation for hundreds of years, and had reached its state of maximum impoverishment

* cf. : Graphs in the Report of Royal Commission on Agriculture facing Page 76.

years ago.”* and the Royal Commission has added : “In this connection, deficiency of combined nitrogen is the limiting factor throughout the greater part of India.”† Definite data regarding the exact connection between the productivity of the agrarian unit of production and soil fertility cannot be ascertained without a comprehensive and intensive soil survey of the different regions of the country. In this connection, it is unfortunate that the Royal Commission on Agriculture should have observed : “*A soil survey of the whole of India on the lines of the soil survey now in progress in the United States of America would, however, be a gigantic enterprise, and we do not recommend that it should be undertaken at the present time. At a later period, when scientific knowledge is more widely diffused and when competent workers can be trained in India, the position may be reconsidered.*”‡ Twenty years after the Royal Commission’s observations, we learn : “The importance of soil survey and soil-mapping is being gradually recognised in different parts of the country. At the Imperial Agricultural Institute, Delhi, *a soil map of India has been prepared on the basis of the available data while an All-India Scheme of soil survey has recently been launched to collect and collate further data on Indian soils.* In Hyderabad and Madras large-scale soil surveys of irrigation projects have been completed, whereas intensive survey of sugar-cane soils has been a special feature in the United Provinces and Bombay. In the

* Ibid P. 76.

† Royal Commission Report P. 76.

‡ Italics mine : Report, P. 74.

latter Province soil maps are now supplied by the Department of Agriculture.”*

It is only more efficient soil survey of the entire subcontinent with a view to more adequate balance between essential food crops and high nutrition crops that can effectively assist better regionalisation of agricultural production throughout the stages of transition from ‘subsistence economy’ to agricultural production under ‘full employment’ levels of productivity. As it is, though the productivity of wheat cropping is the highest in Bihar, the acreage devoted to wheat in that Province is only 1,096,400 acres while barley occupied 1,298,200 acres and maize 1,406,800 acres and oil seeds 1·4 million acres and rice had spread itself over 9·2 million acres, while the Punjab which comes second in productivity was utilising 9·8 million acres for wheat and the United Provinces which came third in productivity was devoting 7·9 million acres to wheat. Similarly in rice, Madras which possessed highest productivity came second to Bengal, which was second in the productivity of rice-fields, the former devoting 10·7 million acres to rice and the latter 20·7 million acres. Bihar which was producing 756 lbs of rice per acre as against 1086 lbs of Madras was utilising 9·2 million acres to rice and the United Provinces which, producing 645 lbs of rice per acre, was devoting 7·2 million acres to that crop and Assam and C. P. which, were by no means in possession high productivity in regard to rice, were devoting 5·4 million and 5·8 million acres to that crop respectively. These few data regarding present distri-

* *Italics mine*, Indian Year Book 1945-46 P. 299.

bution of crops over our land resources denote that crop schedules have been framed with little regard to productivity, but the erratic exigencies of subsistence economy have dictated the existing crop-schedules of the country, further distorted by the unpredictable incidence of price-formations in the primary markets on the distribution of money crops like sugar-cane, cotton, jute, oil-seeds, ground-nuts, tobacco, tea, coffee and rubber.

Even a cursory glance at the present trends in the composition of crop-schedules in primary production will emphasise the colossal magnitude of the waste of land resources of the country, under the impact of the relentless forces of economic evolution for 'subsistence.' There has been neither specialisation in money-crops nor any attempt at the adjustment of agrarian production to the factors of soil fertility in regard to the raising of essential crops. Such phenomenal waste of land resources is inevitable in the economics of subsistence in which units of production are subjected to a heavy process of progressive disintegration which goes on accelerating itself as population pressures go on intensifying themselves from year to year.

Better balance in agrarian production schedules between grain production and high nutrition crops would not only release considerable quantities of land-resources now exploited, but also would bring about better adjustment between crop schedules and soil-fertility in the greater part of the country, besides bringing additional volume of land resources under production through land reclamation and river-valley

and river basin developmental projects. The extent of reallocation of crops can only be adequately determined when intensive research into the soil-properties in the various parts of the country places the requisite material at the disposal of those who are to administer the land resources of the country.

It cannot be sufficiently emphasised that no 'full employment' levels of production, income structures and standards of living are possible in our country without enhancing the productivity of every sod of earth that is today being cultivated, and every acre of land which a comprehensive scheme of integral land-reclamation can bring into the orbit of rural production, and without effective rural 'demobilisation' of employment pressures through mechanisation and high nutrition cultivation.

The frontiers of high nutrition cultivation are seriously delimited today, by the rigidities of the mechanism of economic adjustment inherent in subsistence economy. Thus for a total net cultivated area of 213·9 million acres, in 1940-41, fruits and vegetables occupied only a meagre 3·9 million acres while of 'dairying' industry in the country we are told: "India is still far behind other countries in the matter of dairy-farming and in the retail dairying business,"* though India possesses some of the best milking breeds of cattle like the Sahiwal, the Gir and the Scindhi, the Hissar, Hariana, the Thar-parkar, the Kankrej and the Gir and though "the cattle and buffalo population in India is abnormally high, amounting to 60 per

* Indian Year Book 1945-46 P. 304.

cent of the human population.”* Neither horticulture nor dairying, the two essential props of high nutrition farming have been transformed by ‘subsistence economy.’ It is indeed sad that a country which devotes 3·8 million acres to cotton in Bombay, 3·5 million acres in Central Provinces, 2·6 million acres in the Punjab and has no qualms of conscience in devoting 3·6 million acres to jute in Bengal and 3·9 million acres to groundnut in Madras, should brazen-facedly devote only 3·9 million acres in the whole of India to fruits and vegetables and only 10·4 million acres to fodder crops for 240 million cattle in the country !

The impact of such allocation of land resources among ‘high nutrition’ crops is symptomatic of the degree of poverty which population pressures on the rural resources of the country have generated, which is further reflected in the enormous progress which inferior cereals have maintained in recent years. Thus from 1910 to 1938, jowar maintained maximum progress with 109·7 per cent of increase, barley closely following with 57·1 per cent, and bajra with 25 per cent, while in the same period rice had registered an increase of only 3·5 per cent and wheat 4·2 per cent.† From 1931-32 to 1940-41, jowar had spread itself from 20·9 million acres to 21·2 million acres, bajra from 13·9 million acres to 14·1 million acres, while rice had fallen from 69·9 million acres in 1938-39 to 68·8 million acres and wheat from 26·7 million acres to 26·4 million

† Indian Year Book 1945-46 P. 304.

* Vide R. Mukerji, “The Food Supply”, Oxford Univ. Press, P. 13.

acres; production of rice falling from 25·3 million tons in 1938-39 to 22·1 million tons in 1940-41 and of wheat from 10·7 million tons to 10 million tons during the same period. These trends in the production of better cereals and inferior cereals demonstrate the terrific strain to which the country is subjected in maintaining a growing population with subsistence production in rural areas and the gradual worsening of the general standard of living in the country.

The process of transition from subsistence economy to progressive regional economic self-sufficiency implies certain intricate adjustments in agricultural production without which rising standards of living to high nutrition levels cannot be adequately implemented : (a) in the first place, employment pressure on the unit of rural production must be lightened through increasing the productivity of every acre of land through mechanisation and regulated 'demobilisation' of labour from land involving recasting of crops and better balancing of the occupational structure of the rural zones through diversification of industrial employment; (b) extension of the area under superior food grains and controlled regulation of the production of non-essential ('money crops') crops; (c) greater expansion of gardenlands, and more adequate development of horticultural products with special reference to regional fruits and improvement of the quality of fruits and progressive raising of the productivity of garden lands through the introduction of more efficient methods of cultivation of the garden tracts together with the development of canning and preservation processes for fruits; (d) greater spread of irrigation particularly with reference to regional geological factors and 'economic'

utilisation of irrigation for the production of high grade food grains and protective foods like fruits and vegetables; (e) regulated development of dairying through the development of small units of up-to-date dairying methods and greater propagation of milk-canning and milk-products industries together with planned improvement of local breeds of cattle; (f) expansion of meadowland and extension of the area devoted to fodder crops and greater regionalisation of production of fodder with reference to the regional density of cattle-population ; (g) controlled improvement in the pressure of cattle-population on the land resources and more adequate adjustment between agricultural production and the density of cattle population ; (h) more adequate development of fishing particularly in the coastal regions and in the river-zones of the country along with up-to-date lines of business with small 'modernised' units of fishing industry with greater development of canning and curing processes, and the development of meat industry with special reference to the respective food-preferences of the regional populations; (i) adequate conservation of forest resources particularly in the heavy forest regions of the country through the development of forest industries like lumbering, paper-pulp industry, bee-keeping, lac and rosin conservation, and more intensive research into the possibilities of further expansion of forest industries; (j) greater development of regional industries with special reference to the industrial needs of the region and better conservation of the raw materials for regional industries; (k) development of 'special' agricultural products of the region with the connected industries and controlled regulation of the production

of the 'special' industries of the regions and modernisation of their processes of production and standardisation of their products ; (1) coordinated development of regional transport with reference to the special transport-requirements of the region and controlled development of inter-regional trade and transport; (m) controlled mobilisation of goods and services to maintain 'full employment' standards of living in the region—in the urban as well as in the rural parts of the region concerned, to give a few of the major adjustments that will have to be effectively and urgently implemented to carry the country from the stage of 'subsistence' economic evolution to that of higher regional self-sufficiency.

The extent and trend of adjustment of regional natural resources to the exigencies of full employment drives in productivity, income structures and consumption of regional populations, depend upon the regional soil-fertility conditions and the industrial structure that can be developed on the raw materials, mineral resources of the region and the 'special' skill that would be available for the development of the special industries of the region. Obviously no hard and fast rule of economic transition can be laid for the country as a whole : the nature of the programmes of economic reconstruction with a view to equalibrating employment pressures on regional resources must depend upon the nature of the regional resources and the kind of essential and special crops that can be raised on the available land resources of the region and the crop schedules that can be constructed for the land which the process of transition from subsistence to higher regional self-sufficiency will release and which regional programmes

of land-reclamation through greater spread of irrigation and through implementation of land conservation programmes would bring under cultivation.

There is no doubt that raising of the productivity of land resources under an integral scheme of equalisation of employment-pressures on the land resources of the region, along with controlled production of non-essential crops, which are today subject to erratic fluctuations of production as determined by price-formations in the primary markets of the country would release considerable land resources that are not utilised today. In the process of readjustment of agrarian production to full employment levels of incomes and consumption, perhaps the greatest resistance would be offered by the complicated structure of land tenures prevalent in the different regions of the country, which might be brought under effective control by the gradual transformation in the structure of industrial wages under a decentralised and better localised industrial evolution to maintain balance in regional occupational structures, in an integrated drive for full employment, and these difficulties will disappear when the greater industrialisation of the epoch of transition from subsistence to regional self-sufficiency, from regional self-sufficiency to inter-regional multilateral economic relationships, and from inter-regional economic relationships to international multilateral trade, goes on drastically transforming agricultural and industrial income structures till they are integrated to the dynamics of full employment standards of living in the country.

We should not miss to realise the immense difficulties of launching a comprehensive programme of economic stabilisation to implement 'full employment'

incomes and consumption for a subsistence zone like India. Even for economically advanced industrial zones, the warning is issued against the danger of attempting "to get through the transition period without a stabilisation policy which makes serious fluctuations likely...*Serious fluctuations in employment and prices...will accentuate and prolong the problems of launching stabilisation*", because "*most of the measures involved run counter to some important group interest (or at least to the habit of thought built up around group interests.) Undoubtedly this fact will delay the acceptance of many Key measures.* In consequence we must expect to see a stabilisation programme operating in the critical early years with an incomplete set of tools, and in many fields with second-choice measures as tools—compounding the economic difficulties."*

Naturally the policy of economic stabilisation to implement the necessary programme of readjustment of forces of economic evolution in India will have to be comprehensive enough to eliminate all factors making for 'destabilisation' of economic adjustments. The factors are not insignificant. It means drastic control of all forces creating abnormal fluctuations in employment-structure and in prices ruling in primary and secondary markets of the country, effective circumscription of speculative institutions, stabilisation of monetary fluctuations through effective control of the money markets, dissolution of the existing marketing arrangements in primary markets and controlled movements of goods and services, not only intra-regional but also

* Albert G. Hart, American Economic Review for May 1946, P. 287. Italics mine.

interregional, adequate adjustment between the consumption propensities of rural and urban areas of the region, stabilisation and progressive coordination of wage-standards between rural and urban areas, management of inter-local trade relations, the institution of legal and administrative measures to implement programmes of economic stabilisation, particularly in regard to ownership and occupancy rights in land, interoccupational and interlocal mobility of labour, market administration, land acquisition for communal projects like monsoon catchment projects and river zone development projects, extension of meadow-land and the development of transport facilities, land reclamation projects and all programmes of economic development which encroach on the rights of individual ownership of land in the regions subjected to the new processes of economic transition.

It would mean the breakdown of the barriers of social and cultural inhibitions in so far as they impinge upon the implementation of any programme for the reconstruction of economic life in any given region at full employment levels of economic and technical efficiency of the primary and industrial structures for, as Sir William Beveridge has observed: "perpetual instability of economic or social policy would make full employment and any other social reforms futile or impossible"* Nothing should be allowed to distort any programme of economic stabilisation which attempts to implement adequate full employment for the four hundred million people as "a means to a

* Full Employment p. 23.

higher standard of life”* Naturally, there will have to be drastic transformations in the social and political institutions which have been created and sustained by a ‘subsistence economy’, when the economic system of the country is caught in the process of change inevitable in its march towards the goal of ‘full employment’ and an integrated pattern of economic progress as an instrument for higher standards of living in our sub-continent. If, in this gigantic process of economic change, “it should be shown by experience or by argument that abolition of private property in the means of production was necessary for full employment, this abolition will have to be undertaken”.† We must realise that there can be no half-measures in “the making of a common attack on the giant social evils of Want, Disease, Ignorance and Squalor,” which has special import for a country like India, where these ‘giant social evils’ have grossly distorted the very structure of material and moral civilisation under the aegis of a relentless “subsistence” economy.

Undoubtedly, the first place of importance in any scheme of agrarian reconstruction should go to irrigation in order to reduce the major uncertainty of the monsoon in the organisation of agricultural production, as part of an integral programme for the raising of the productivity of the land resources of the country. In 1941-42 for a total net sown area of 213.9 million acres in India, productive irrigation works covered an area of 26 million acres representing 12.2 per cent of

* Ibid P. 20.

† Sir William Beveridge, Full Employment P. 23.

the net sown area, and the total irrigated area covered by Government Irrigation Works was 34·7 million acres or 16 per cent of the total net sown area in the country. Thus about 85 per cent of the land resources of the country depended upon the success of the monsoon for the completion of agricultural operations. Among the Provinces, the Punjab had the largest acreage covered by irrigation—12·7 million acres—in the whole of India, though the percentage of irrigated area to total sown area was only 39·5, while Sindh with 5·3 million acres had 88 per cent of the total sown area covered by irrigation. Of the ten provinces in India only three provinces had more than 20 per cent of their total sown area covered by irrigation : Madras with 21·2 per cent, Sindh with 88 per cent and the Punjab with 39·5 per cent, while even the United Provinces had 16·8 per cent of the total sown area covered by irrigation, though the acreage irrigated was 5·9 million acres; and, for the whole of India, these four Provinces alone had more than one million acres under irrigation, the Provinces with the lowest percentage of irrigation being Bengal with 245,300 acres representing 0·79 per cent of total sown area in 1941-42.

These data go to show the enormous scope for the harnessing of the great river system of the country not only for the purpose of irrigation, but also for the generation of hydro-electric energy for recovering synthetic nitrogen from air for improving the fertility the land resources, for development of regional industries through cheap supply of power, for purposes of harnessing electric power for transport in the river zones of the country and for the development

of waterways. As it is, few rivers of the country have been adequately utilised for the economic development of the river zones of the country, either through vast irrigational projects or through hydro-electric power projects. In Mysore, Cauvery has been partly used for hydro-electric power development and for irrigation, though little use is made of hydro-electric power for getting nitrogen from air for manurial purposes. The Tata Power Scheme is purely a hydro-electric project. The recent development of Quilon as an industrial centre in the Travancore State affords a good lesson for emulation elsewhere. The Pallivasal system in Travancore utilises the power resources of the fall of the Mudirapuzha river, though no irrigational projects have been developed out of the scheme. Similarly the Pykhara Scheme utilises the power resources of the Pykhara river, which has sustained the phenomenal industrial development of Coimbatore in recent years. The most welcome scheme from the multi-purpose river project point of view is the Mettur Scheme which combines irrigation with power development. Similarly the Jhelum River has been harnessed in Kashmir for power-development. The Ganges Canal Grid system in the United Provinces is of great interest to those interested in power-development projects, since the grid provides energy for lifting water from the rivers and wells. Power is utilised in Moradabad, Bijnor, Budaun, Sharanpur, Meerut and Aligarh zones of the Province for this purpose. In the Punjab there is Mandi Scheme on the Uhl river for power generation. Development of the Thungabhadra river is a luscious bone of contention between the Governments of Hyderabad, Mysore and Madras.

It is strange that among the great rivers of the country, only the Cauvery in South India should have been utilised for purposes of hydro-electric development and irrigation, while rivers like the Ganges, Brahmaputra, the Indus, Narbada, the Kistna, the Jumna and the Godavari, to give outstanding examples only, have hardly been subjected to any intensive programme of economic development of the regions which they cover in their course through the subcontinent, on the pattern of the TVA project; nor has there been any attempt at utilising all the available hydro-electric power resources of the innumerable streams that drain the Himalayan range, and the Western Ghats for the economic development of the neighbouring tracts. An integrated conservation of the river system of the country for multipurpose developmental projects implies a comprehensive survey of the river system of our country for purposes of hydro-electric power generation, navigation, irrigation and the development of fisheries and forest resources of the areas served by them. Such a survey would reveal a wealth of data which might go to revolutionise the occupational structure of the zones concerned through the development of the agricultural and industrial resources of the concerned areas. The recent growth of the economic potential of Quilon and Coimbatore in South India should go to emphasise the enormous economic transition which adequate conservation of the river wealth of the country might initiate to sustain 'full employment' levels of income and consumption in the rural and urban zones of vast territory covered by the course of the rivers.

Similarly, the transition from subsistence economy to an economic system designed to sustain 'full employ-

ment' in the country would immensely widen the area of irrigation covered by tanks, wells and other sources which today irrigate 25.8 million acres in the entire country, once irrigation is rescued from the impact of price-fluctuations on agricultural production and the 'erratic' responses of agrarian cost-structures to price-formations in the primary markets of the country. Thus, we learn, under the impact of subsistence economy on rural cost structures, (owing to the cost of lifting) well-water : is "generally used for high-grade crops" today,* though "it is estimated that well irrigated lands produce at least one-third more than canal-watered lands produce"† Even under the impact of subsistence economy, well irrigation had spread in India from 11.37 million acres in 1901 to 13.76 million acres in 1941. Similarly tank-irrigation had spread itself in the same period from 5 million acres to 6.1 million acres. It is needless to emphasise that the expansion of irrigation particularly through tanks and wells must depend on the agrarian resources of each region and the crops which might be grown in the zone concerned—well irrigation being specially utilised in the monsoon tracts, to the raising of protective food for the population, like fruits and vegetables.

Nor can the importance of adequate adjustment of cattle density to agricultural resources to maintain high full employment productivity of agrarian production be underrated. The reshifting of crop-schedules and the extension of meadow-land and the spread of fodder crops over wider areas of the country will undoubtedly

* Vide Indian Year Book 1945-45, P. 329.

† Ibid P. 329.

affect the existing relation between cattle-population and land resources, while the development of dairying industry along modern lines will transform breeding and conservation of regional stock of cattle. Particularly, the importance of cattle for the triple purpose of manuring, high nutrition levels of diets and development of rural transport within specific limits, can hardly be over-emphasised. In our country, we learn that cattle, today, are mainly used for draught, for the plough or for the cart over the rural areas.* In point of relation between population and cattle and buffalos, the Central Provinces today have accumulated the heaviest cattle population with 83·9 per cent, Assam comes next with 76·1 per cent, the Punjab has a cattle population of 73·7 per cent, Sindh 70·9 per cent, the United Provinces has 68·4 per cent, Madras and Bengal having 52·2 and 54·6 per cent respectively, while Bombay has about 53 per cent. The density of cattle population depends upon the extent of meadow land, the nature of agricultural production in the region and the breed of cattle available. Thus we learn : "In cotton and millet growing tracts, the total number may lie between twenty and thirty per 100 acres, of net sown area, with from 8 to 10 plough cattle; whereas when rice is the predominant crop, between three and four times these number are to be looked for. Where grazing land of fair quality exists, as in the submontane tracts of the north, it may be expected to show some influence on the numbers of cattle kept; but, elsewhere, ..the total number of ordinary cattle would appear to be primarily determined by the

* Vide Royal Commission on Agriculture, P. 196.

number of animals needed for work on land"* It is needless to stress that the relationship between the efficiency of cattle and density of cattle-population to land resources varies in inverse ratio.

Nor can we underrate the importance of sheep farming as the handmaid of efficient conservation of rural resources. Today the importance of sheep farming in the country's rural economy is insignificant, the number of sheep being only 4·5 million for the whole of India, with 8·5 million pounds of wool per year. In spite of the efforts of the Imperial Council of Agricultural Research since 1933 to improve the quality of wool produced in the country, little progress has been achieved in sheep-farming. Though sheep farming is distributed over the Provinces, with heavy concentration in Madras, with the Punjab and the United Provinces coming next in importance, the average wool production per sheep is less than 2 lbs per annum. "This would indicate the vast scope for increasing wool production,"† particularly when reorganisation of agricultural production would increase the area of meadow land for the maintenance of cattle and for adequate development of sheep farming in the country.

These few observations advanced above should go to demonstrate the complexity of the problem of fitting a subsistence economy to the evolution process of implementing an integral programme of 'full employment', not only of the volume of population emerging into the employable age-groups but also of all other factors of production. The economic system will

* Report of the Royal Commission on Agriculture, pp. 187-88.

† Indian Year Book 1945-46 P. 304.

have to be carried through three stages of economic transition : (a) from 'subsistence economy' to high degree regional economic self-sufficiency with full employment levels of production—agrarian as well as industrial, income-structures, consumption propensities of the population rural and urban ; (b) from high degree regional economic self-sufficiency to inter-regional multilateral economic relations, involving adjustment of production trends—agrarian and industrial, to the maintenance of an adequate structure of inter-regional economic relationship at 'full employment' levels in production and income-structures, with adequate control of inter-regional movements of goods and factors to maintain 'full employment' structures of regional production, income structures and investment-trends uncontaminated by factors making for discrepancies in the apparatus of integrated economic evolution of the regions entering the orbit of multilateral economic relationships and (c) finally, bringing the national economic system into an integrated pattern of international multilateral economic relationships at full employment levels of economic evolution, implying the adjustment of the entire structure of production, levels of income, rates of employment, and consumption propensities to implement full employment standards of living, to a pattern of foreign trade suited to the dynamics of full employment economic evolution of the other regions of the world, ensuring that no country which enters the framework of international multilateral economic relationships will have its programmes of economic stabilisation contaminated by the export of unemployment, either through distortion, of foreign trade equations generated by either excess of

imports or excess of exports or through the distortion of regional price and cost structures by erratic exchange fluctuations reacting to the dynamics of multilateral trade in goods and services or through inter-national capital-movements.

Since distortion of the structure of employment-pressures under the impact of 'subsistence economy has flung over seventy-five per cent of the people on the land resources of the country, the progress of economic stabilisation in India through the initial stages of transition from subsistence economy to high degree regional economic self-sufficiency at-full employment levels of economic evolution would present enormous difficulties. Increase in the productivity of the unit of agrarian production in an attempt to equilibrate employment pressures on the occupational structure of the rural zones would release good portion of land resources as well as labour power, and if progress has to be maintained at full employment levels of economic adjustment, drastic transformation of the rural structure of occupational preferences is rendered inevitable, in order to reabsorb the labour potential of an increasing volume of population emerging into the employable age-groups every year, at full employment levels of wage-adjustment, while maintaining the productivity of the entire apparatus of regional production unimpaired by heavy inter-occupational movements of labour, even if we should ignore the administrative difficulties of widening the base of the unit of agrarian production through the maze of land tenures and property rights which are set up by an individualist recognition of the rights of landownership today.

It should be obvious that inter-regional and inter-occupational mobility of labour with a view to enhance productivity of the rural apparatus of production to full employment levels would have to be carefully implemented, and till the reconstruction of the structure of employment preference ratios to full employment levels of occupational adjustment is completely and adequately established, it is indeed difficult to avoid a certain degree of economic friction and resistance in the process of adjustment of regional economic evolution to the dynamics of full employment adjustment ratios. The presence, in the country, of about thirty-six million agricultural labourers might, to some extent, alleviate the difficulties in the process of launching regional economic stabilisation programmes and without adequate decentralisation of the industrial structure which full employment processes of economic evolution will construct in the country and controlled regionalisation with due consideration to localisation with the productivity of the regional industrial structure unimpaired, the process of economic stabilisation will generate heavy inter-regional movements of labour which would distort beyond recognition the structure of occupational preference ratios of the other regions of the country.

Naturally the argument for the control of inter-regional and inter-occupational movements of labour assumes specific importance for a country with a subsistence economy like India, if the future economic evolution of the subcontinent is to be maintained at 'full employment' levels of adjustment of production, income, investment and standards of living. Nor can we ignore the overwhelming importance of keeping

up a high level of productivity for the units of agrarian production through mechanisation and adequate regionalisation of crop-schedules, cattle-conservation programmes, irrigation development programmes, soil conservation programmes and efficient balance between grain-production and high nutrition farming and integrate these sectional programmes of economic development with the dynamics of regional economic evolution to sustain an adequate pattern of full-employment.

Obviously economic stabilisation for a subsistence zone like India cannot be achieved without reducing the discrepancies and resistances in the economic relationship between employment ratios and the pace of technical progress which governs the tempo of investment in any community by affecting productivity of the national structure of production, by distorting the composition of liquidity preference ratios, by contaminating consumption-propensities and by affecting the standards of living through fluctuations in money and real incomes and infecting the pattern of international economic relations through the mechanism of multilateral 'terms of trade' and transmitting waves of economic 'destabilisation' to all the zones which are linked to each other in the frame-work of international economic cooperation. Unemployment in the labour market and in the general factor markets is the result of the discrepancy between the progress of employment ratios and the dynamics of technical progress, acceleration of employment rates checking technical progress, and the growing rhythm of technical progress reducing the rate of employment by affecting the productivity of the structure of production—primary

as well as 'metropolitan', which, in its turn, creates discrepancy between the rate of savings and the pace of investment, driving the economic system further and further from programmes of economic stabilisation of progress ratios at full employment levels.

If the foregoing analysis is correct, it is not an easy task to ensure "reasonable stability in production as well as in price, *without stopping change and technical progress*,"* since in order to effectively implement economic stabilisation in any region at full employment levels of adjustment between production and consumption, drastic control of the three factors which go on creating unemployment, is rendered inevitable: "the factors determining the quantity of effective demand", "the factors determining the direction of demand" and "the factors determining the manner" in which the agrarian as well as industrial structure of production "responds to the demand",† while demand itself depends upon incomes and, in the Keynesian terminology, "the decision to consume and the decisions to invest between them determine incomes."‡

The problem of "saving-investment balance" in the development of a full employment economy, "the central unsolved problem of economic theory and practice in the capitalistic world",§ though it does not appear with the same contours in India in the initial stages of economic transition to the 'full employment' pattern of economic evolution, will manifest itself in a

* Sir William Beveridge op. cit. P. 233.

† Vide Sir William Beveridge, op. cit. P. 24.

‡ General Theory of Employment, Interest and Money, p. 64.

§ Vide Ezekiel, in American Economic Review, May, 1946, P. 204.

different shape in economic development of our country. It is obvious that the transitional programmes of economic stabilisation of Indian economy towards the full employment levels of production, incomes and consumption cannot be adequately implemented without foreign capital and capital equipment for the vast developmental projects in the rural as well as in urban zones of the country. This will render imperative, certain major economic adjustments in the relationship between India and the capital exporting country with a view to prepare the country's economic system to sustain heavy import of capital equipment without abnormal distortions in the structure of external trade equations and their impact on regional and national programmes of economic development projected to carry the country to the full employment levels of economic evolution, but the long-term effects of such heavy capital imports on the structure of multilateral trade relations between India and the capital exporting countries are bound to be highly intricate, particularly when international movements of goods and services are highly complicated by programmes of 'full employment' in the industrial countries of the world, which alone can supply the requisite capital to our country to enable her to emerge out of the subsistence economy of today into the 'full employment' economy of the days to come, because we cannot underrate the significance of Professor Walker's observation that "two industrial countries cannot trade but to the disadvantage of one,"* which assumes a special 'import' in the maintenance of economic relationships between two coun-

* Vide Economic Journal, March, 1946. P. 114.

tries attempting to maintain a "full employment" pattern of economic evolution. Nor can the countries which undertake to finance developmental projects in subsistence zones like India afford to ignore "the important effect that...international investment may have on the welfare of the poor countries the development of which is their professed aim"*

Nor can it be assumed that the pattern of economic evolution for full employment will give each region even during the stage of transition from subsistence economy to high degree economic selfsufficiency identical structures of rural and urban production, agricultural and industrial income structures, wage-standards and standards of living: India is a world in itself. Conceptions of standards of living differ from region to region, and wage standards have to be adjusted with special reference to regional conceptions of standards of living, and while regional economic evolution with "full employment" production and income structures is to be the goal, it cannot be assumed that all the regions of the country will possess a standardised pattern of economic evolution or uniform wage and income standards. There will not only be inter-provincial divergences in economic evolution, but also inter-regional and interlocal differences which are inevitable when economic evolution has to be adjusted to the degree of productivity of agrarian and industrial resources to the pattern of regional full employment. Nor need we fear heavy inter-regional or inter-provincial migration of labour if the integration of wage-standards

* Yuan-Li Wu "International Capital Investment", *Economic Journal* March, 1946, P. 101.

to regional standards of life creates small divergences in the movements of money and real incomes among the different regions in the country. Nor can we ignore the existence of regions where limitations in agrarian and industrial resources prevent the emergence of full fledged high degree economic self-sufficiency and necessitate, even during the first stage of transition, an adequate structure of inter-regional multilateral economic relationship to sustain full employment standards of living in the different regions of the country. A comprehensive and intensive economic survey of the productive resources of each region with a view to maintain 'full employment' structures of economic condition will reveal the nature and content of inter-regional structure of economic relations that would have to be sustained in order to ensure 'full employment' efficiency in regional economic relations.

Perhaps the greatest problem that will emerge during the initial years of transition in the economic structure of the country, greater than the problem of regulated inter-occupational mobility of labour, greater than the problem of productivity of the regional structure of agrarian and industrial production, would be the problem of reconstruction of the price structure to prepare the country to face the intricate adjustments in production, consumption, incomes, wages and standards of living to sustain 'full employment' levels of economic evolution. It is needless to urge, here, the important place which control of sectional price-movements as an integral part of general price stabilisation to carry the country to 'full employment' levels of production and incomes can have in the new pattern of national economic evolution. And

severe regulation of the money market of the country, with a view to eliminate price-distortions which are created by abnormal trends in the formation of liquidity preference ratios of the people due to periodic disturbances to the relation between the volume of purchasing power and the volume of goods that enter the regional circle of exchange, is rendered inevitable if the passage of the country from one stage of economic evolution to the other is to be smooth with the minimum degree of friction in the mechanism of economic administration.

Nor can an adequate policy of price-stabilisation as an integral part of general economic stabilisation with a view to sustain full employment be achieved without a drastic control of the marketing machinery which exists today in the primary as well as industrial markets of the country. Erratic sectional price-formations generated by high speculative and cornering activities of 'middlemen' in agricultural and industrial products have a devastating effect on the delicate structure of economic adjustments which is essential to maintain full employment and will undoubtedly sabotage economic stabilisation programmes that may be launched by heavy distortion of income structures, productivity of the structure of production and the consumption propensity of the people by creating abnormal fluctuations in prices, unless they are effectively circumscribed. Nor can circumscription end by mere administrative control of speculation and cornering; it must be effectively implemented by severe regulation of movements of goods and money among the different regions of the country.

It should be obvious that such an economic

evolution will change the structural as well as functional contours of the money-market and will undoubtedly affect the banking and investment business of the country by bringing about a definite transformation in the relation between savings and investment, in the sense in which we understand that relationship today. A fuller analysis of the effect of economic stabilisation programmes to implement 'full employment' on the structure and operations of the money-market and the adjustments in the banking and financial system of the country to sustain full employment economic evolution must be reserved for another part of the book, while it should be enough to urge here that so far the dynamics of the rural money market has been the primary factor, next to the uncertainties of the monsoon and the unpredictable nature of agricultural operations, in distorting agrarian prices and generating erratic resistances in the process of adjustment between primary prices and agrarian production. No programme of economic stabilisation of agricultural production can be successfully implemented without elimination of all factors which tend to create abnormal fluctuations in the prices of agricultural production.

The biggest problem that has cast its shadow on agricultural production today is the problem of rural indebtedness. The volume of agricultural indebtedness has been estimated by the Reserve Bank of India in 1937 at Rs. 1800 crores and by Dr. P. J. Thomas at Rs. 1200 crores in 1939.* The phenomenal fluctuations in the prices of agricultural commodities beginning

* Vide : The Economic Problem of Modern India, Vol. I, P. 176.

with the outbreak of the recent war in 1939—the index number of which stood at 303.3 for July, 1946 with August, 1939 as the base,† must have enabled the agriculturists to reduce a good portion of their indebtedness, as any fresh enquiry into the position of agrarian indebtedness in the country today would reveal. This last vestige of a subsistence economy, will have to be eliminated by converting the whole rural indebtedness of the country into a funded debt with option for repayment at the convenience of the Government. The implications of such a process on the national budget must be reserved for a later section of the book.

Our survey of the problem of adjusting agriculture to the exigencies of a full employment pattern of economic evolution has demonstrated the difficulties that have to be met in launching any nation-wide programme of economic stabilisation. These difficulties are not insurmountable ; there can be no royal road to full employment standards of productivity and standards of living without the dissolution of the patent rigidities in the mechanism of economic adjustment which have been created by the impact of subsistence economy on the economic evolution of the country during the past hundred and fifty years. The vast agrarian tracts of the country which have to maintain three hundred million people today, have been caught in the tentacles of economic stagnation created by the process of incompatible economic adjustment between production for subsistence and price fluctuations in a competitive market with the result that some of the patent resistances in the apparatus of adjustment between price-oscillations and agrarian production due to the inevi-

† Vide Commerce, 14th September, 1946. P. 456.

table lag in the process of agricultural production and the technical limitations in the structure of the unit of primary production, have been magnified, particularly in the economic system of the country where subsistence farming gradually contracts the base of the primary unit of production, as the dynamics of population goes on progressively intensifying employment-pressures on the land resources of the country, with disastrous effect on the standards of living not only in rural areas but also in the urban zones of the country which have to maintain their structures of production economically balanced in the shifting framework of subsistence market for industrial products.

The conclusion is irresistible that there can be neither a rising standard of living, nor higher productivity in agriculture and industry, nor adequate adjustment between population and progress, without a conscious and concentrated endeavour to reconstruct the economic life of the country to sustain full employment levels of productivity, incomes and wages, standards of life and consumption propensities, and keep the various forces of economic and technical progress in constant and progressive adjustment with the increasing volume of population which annually emerges into the employable age groups through comprehensive conservation of the agrarian and industrial resources of the country to bring India into the orbit of multilateral economic relations with the world at 'full employment' levels of foreign trade.

If it is true that "the material end of all human activity is consumption"* and also that "employment

* Sir William Beveridge, op. cit. P. 20.

is wanted as a means to more consumption or more leisure, as a means to a higher standard of life"* we must attempt, by all processes of progress at our command and within reach of our power of comprehension, to provide a higher standard of life for the four hundred million people who are caught today in the stagnating framework of a relentless 'subsistence economy', which is flinging, on the annual scrap-heap of unemployment, not only huge quantities of agriculture and industrial resources of the country, but also a growing number of human beings, whose economic energies are being lost for ever to this country. The imperious significance of Wicksteed's observation in this connection cannot be overemphasised : "We must . . . conceive of the supply of available human effort of any kind as perpetually flowing into waste if not utilised the moment it rises We are speaking of the stream of continuously renascent power of work, and in the case of a man who has not been employed that power has run to waste."† "It has perished" !

✓ In India the task "of creating a community in which men and women have value"‡ is specially urgent today, because the impact of subsistence economy on the national economic system has created a social pattern in which 'men and women' have become a heavy burden on the national conscience. The problem of India is the problem of increasing "both production and private consumption."§ And nothing but reorgani-

* Ibid P. 20.

† Commonsense of Political Economy, P. 321.

‡ Sir W. Beveridge op. cit. P. 121.

§ See Ibid P. 115.

sation of the economic life of the country to sustain full employment levels of production and consumption, with proper adjustments between employment pressure and the productivity of national resources through an integrated pattern of occupational readjustment can ensure for the vast population of the country the prospects of peace and prosperity consistent with the new century conceptions of Progress.

CHAPTER III.

FULL EMPLOYMENT AND THE STRUCTURE OF INDUSTRY.

“India is and always has been a prominently agricultural country,” records an unofficial report, “and over sixty-five per cent of her working population are dependent on the soil for their principal means of livelihood. Agriculture, by itself, however does not always afford, either to the agriculturist or to the agricultural labourer, the wherewithal for keeping body and soul together. It is necessary, therefore, for both the small cultivators and the agricultural labourers to migrate frequently to the towns and cities in search of additional work to keep the wolf from the door; but the migration is generally of temporary character, and the agriculturist’s contact with his land is seldom, if even, permanently broken.”* “Agriculture,” writes the Royal Commission on Labour, “has naturally supplied the bulk of the recently established industrial population...Even where workers live with their families in the Factory areas, many of them look to some village as their home and do their best to retain contact with it. The residue, who have no village ties and look upon the city as their home, are only a small percentage of the total labour force. This permanent element...has been estimated as contributing in Ahmedabad 20 per cent of the working class popu-

* Indian Year Book 1945-46 P. 476.

lation. Elsewhere the figure is generally much smaller.”*

The foregoing extracts demonstrate the impact of a subsistence type of agrarian economy on the composition of the labour-market which has its indelible impress upon the industrial evolution of the country, the degree of flexibility of the industrial structure, the resilience of wage standards, and the nature of industrial location. The impact of agrarian evolution in the past hundred and fifty years on our industrial structure has set up a labour market, in which, “after industrial employment has commenced, the workers return to the village as often as they can. Financial considerations form the principal obstacle to frequent returns : the man who succeeds in the mills returns more regularly as his income rises... Finally the worker looks forward to a time when his work in the factory will be over, and he can return to the village for good.”†

It needs no reiteration that the industrial system of the country has been unable to maintain a stabilised labour market or bring about any transformation in the structure of employment—pressures in the country in the long course of its development for the past one century—since the first jute mill was established at Dundee in the year 1838. The prime factor that has been responsible for keeping the labour market of the country in a fluid state for over a century is the divergence between wage-movements and the urban structure of standards of living—or the growing margin between money and real incomes in the urban areas of

* Report, PP. 12–13.

† Report, Royal Commission on labour, P. 14.

the country which has been generated by the factors which have dictated the location of the industrial structure in the urban areas, which the Hand-book of Commercial Information describes, as "essentially distributing centres."*

Thus, we find that among Provinces, the heaviest industrial location was experienced by Bombay which had a labour population of 7·36 lakhs for a total working population in India of 25·20 lakhs in 1944. Next came Bengal with 7·08 lakhs, followed by the United Provinces with 2·78 lakhs, Madras with 2·65 lakhs, the Punjab with 1·47 lakhs and the Central Provinces with 1 lakh of working population. Cotton textile industry was very heavily localised in the Bombay Presidency which absorbed in 1944, 3·97 lakhs of textile workers for an all India figure of 6·54 lakhs, Madras coming next with ·91 lakhs, while the jute industry was concentrated in Bengal with 2·67 lakhs for all India total of 2·88 lakhs. General Engineering industry was heavily localised in Bengal with 60 thousand population for a total of 1·09 lakhs, Bombay coming next with 15 thousand. The iron and steel industry was highly concentrated in Bihar which had 33·1 thousand population for an all India working population of 58·4 thousand. Sugar industry was highly localised in the United Provinces with 5·5 thousand population for a total labour population of 5·9 thousands. The match industry was concentrated in Madras and Bengal which between them absorbed 3·7 thousand and 2·6 thousand labourers for an all—India total of 11 thousand workers. With more or less even

* Vide : Hand Book of Commercial Information P. 110 et seq.

distribution among Bombay, the United Provinces and Assam. Oil Milling was localised in Bombay which absorbed 9·2 thousand workers, the United Provinces coming next with 5·4 thousand, Madras, Central Provinces, Bengal and Bihar each having more than two thousands of workers in oil mills for an all-India total of 27·3 thousand workers; the paper industry had been highly located in Bengal with 8·8 thousand workers for a total of 16·5 thousand workers with more or less even distribution of the industry among Bombay, the United Provinces, Bihar and Orissa ; the brick and tile industry was heavily located in Madras and Bombay which had 8·5 thousand and 6·8 thousand labourers for a total of 21·7 thousand workers, Bihar coming next with 5·8 thousand labourers ; the glass industry was highly concentrated in the U. P. with 8·1 thousand workers for a total of 21·6 thousand workers, Bengal coming next with 5·1 thousand workers with Bombay following closely with 4·3 thousand labourers; the leather industry was highly localised in the United Provinces absorbing 9·3 thousand workers for an all-India total of 18·9 thousands, Bengal coming next with 7·7 thousand labourers, while the leather tanning industry was heavily localised in Madras with 7·4 thousand workers for a total of 14·7 thousand workers, the U. P. coming next with 3·4 thousand workers, among perennial industries of the country.

Among seasonal factories, the sugar industry was heavily localised in the United Provinces which absorbed 47·2 thousand workers for a total of 88·3 thousand, Bihar coming next with 18·1 thousand labourers, with Bombay and Madras following with 12·3

thousand and 3 thousand respectively. Cotton ginning factories were heavily concentrated in Bombay with 33·8 thousand workers, the Central Provinces coming next with 26·2 thousands, Madras following with 18·9 thousand workers, with Sindh absorbing 16·7 thousand labourers.*

Today cotton industry happens to be located at the following urban centres of the country : Bombay, Ahmedabad, Nadiad, Viramgam, Broach, Surat, Dhulia, Amalnar, Jalgaon, Burhanpur, Ellichpur, Akola Nagpur, Satara, Sholapur, Gokak, Hubli, Cannanore, Calicut, Coimbatore, Madura, Madras, Calcutta, Cawnpore, Lucknow, Delhi, Jhansi and Moradabad among the major centres of the industry, while the jute industry is heavily localised in Calcutta† The engineering and iron and steel factories are located in Calcutta, Jamshedpur, Kulti, Asansol, and Kirkee. Among the other major industrial centres may be mentioned, Bangalore, Quilon, Lahore, Aligarh, Sialkot, Benares, Jubbulpore, Mirzapur, Lashkar (Gwalior), Jaipur, Mysore and Secunderabad

Three factors have been responsible for the present localisation of industries in India : (a) the transport system of the country which was more strategic than economic in conception and evolution; (b) the availability of technical skill in the major urban centres of the country; (c) power resources for the industry and the facility with which it could be obtained in the larger urban centres than in those areas which were remote from the main transport system of the country.

* Vide Indian Labour Gazette, Jan., 1946, P. 221 et. Seq.

† Vide Handbook of Commercial Information, P. 148.

Naturally, two major problems have cast their grim shadow over the evolution process of the India's industrial system : (a) severe economic limitations imposed by a subsistence economy on the marketing of industrial products in the country ; (b) the problem of maintaining a flexible cost structure in industry within the frame-work of secondary markets whose price-formations were determined by powerful international forces of adjustment in prices of industrial products and of managing wage-fluctuations to establish the labour market of the country, keeping in view the severe distortions of employment preference ratios in the urban zones of the country by the specific sanitary and social problems created by unusual population pressures in urban centres, particularly in a country where nearly three-fourths of the population are accustomed to rural ways of thought and living.

In such circumstances, as the Royal Commission on Labour observes, "emigration has always arisen mainly from *the difficulty of finding anadequate livelihood* in one's native place, and this is the predominant force which impels the Indian villager to seek industrial employment."* Only severe economic pressure which a subsistence economy in the rural zones exerts on the general standard of living has been responsible for inter-occupational movements of labour ; and any slight lifting of that pressure in rural areas due either to the price formations of primary commodities, thus transforming the agricultural income structures, or to the restoration of normal harvest conditions, where interoccpuational migration has been due to "periodic

* Italics mine, Report P. 14.

draught or flood",* or serious shrinkage of the margin between money wages and real wages in the urban areas, creates an urban exodus of considerable magnitude.

Thus, the Indian industrial system is dangerously poised between the Scylla of a fluid labour market and the Charybdis of a secondary market determined by the dynamics of the consumption-propensity of a population caught in the rigid frame-work of a subsistence economy. Even as early in its evolution as 1925, of the cotton industry, we learn that "the state of the industry was such that the millowners decided to reduce the wages of their employees"† which so inflamed the cotton labour market that "a very threatening cloud" hung over the Bombay Cotton industry involving 125,000 workers by the end of September of that year.‡ Even in 1931, the Official Chronicler recorded : "The Textile mills in Bombay are also having frequent labour trouble."§ This state of affairs is inevitable when the chain index of profits in the cotton industry with 1928 as the base, stood at 37·9 in 1930; 52·5 in 1931, oscillated to 52·5 in 1932, dropped back to 33·9 in 1933 and never recovered to the base period level except in 1937 when it stood at 117·7 due to reduction in the ferocity of Japanese competition in the textile markets of the country.||

Nor has the story of the general industrial structure of the country been more rosy as the accompanying table demonstrates :

* Report : Royal Commission on Labour P. 15.

† India in 1925-26 P. 31.

‡ See Prof. Coatman India in 1925-26 P. 32.

§ Review of the Trade of India 1930-31 P. 1.

|| Review of the Trade of India 1937-38 P. 31.

CHAIN INDEX OF INDUSTRIAL PROFITS.
Base 1928—100

Year	No. of units	Chain Index of Industrial profits.
1928	308	100
1931	317	27.9
1932	320	34.6
1933	324	44.2
1934	327	62.4
1935	334	69.3
1936	331	63.1
1937	173	55.4
1939	340	72.4
1940	342	99.6

Thus between the twelve years under survey, the oscillations in the structure of industrial profits have been between a minimum of 27.8 for the year 1931, and a maximum of 99.6 for the year 1940, the index number never reaching the base period level. Naturally the wage that the industrial system could offer was not such as to keep the labour market adequately stabilised, or in the language of the Royal Commission on Labour, the "economic position was not such as to make the terms offered by industry attractive,"*

Such an economic evolution of the industrial structure naturally imposed severe limitations on the mobility as well stability and composition of the labour market. Thus the Royal Commission on Labour observes : "The smaller centres everywhere draw on the surrounding rural areas for all the workers that they require, except labour demanding special skill..... The cotton mills of Ahme-

* Royal Commission on Labour, Report P. 11.

dabad draw 65% of their labour from Ahmedabad district and the adjacent state of Baroda. While most of the remainder come from areas not far distant.... Cawnpore has *close to it areas where the pressure of population is severe* and the bulk of its labour comes from the adjoining districts and those immediately beyond them.... The only centres which have..to go far afield for the bulk of their labour are..Jamshedpur, Bombay and the Hooghly area. Thus Bombay"* "draws its factory labour mainly from two sources—by sea from Ratnagiri, a district to the *south where pressure on land is very great*, and by land from the Deccan districts of Ahmadnagar, Poona and Sholapur."† Of Calcutta we read : "The Hooghly, with more than double the demand of Bombay for factory labour.... does not draw the bulk of the factory workers from them (the heavily populated districts of Bengal). The Bengalis have less inclination for factory work than other Indian races... The bulk of the jute mill labour comes from the west of Bihar and the east of the United provinces..the north of the Madras Presidency, east of the Central Provinces, while Orissa, which supplies labour of many kinds to Calcutta and its neighbourhood, is also represented in the factories."‡

In spite of the fact that inter-regional mobility of labour has been generated by intensification of population-pressures on the land resources of the country under the impact of subsistence economy in rural zones, the management of the wage-structure to keep wage movements adequately adjusted to urban costs of

* Report of the Royal Commission on Labour p. 10.

† Italics Mine, Report, P. 11.

‡ Report : Royal Commission on Labour, P. 11

living has not been possible for the industrial system of the country which has to seek its structural balance in an economic conjuncture created and sustained by the rigid adjustments of a subsistence rural market for industrial products. Consequently it has not been possible to avoid frequent explosions in the labour markets of the country as the accompanying table amply demonstrates :

INDUSTRIAL DISPUTES IN INDIA

Year	No. of Disputes	Number of Labourers involved
1921	396	600,351
1926	128	186,811
1927	129	131,655
1928	203	506,851
1929	141	532,016
1931	166	203,008
1932	118	128,099
1935	145	114,217
1937	379	647,801
1938	399	401,075
1939	406	409,189
1941	359	291,054
1942	694	772,654

And as late in the day as, from June, 1945 to June, 1946, the industrial system of the country was convulsed by 1469 disputes involving 1,851,513 people* with 39 per cent of the stoppages being concerned with questions of "wage and—or dearness allowances", in spite of the fact that the percentage rise in wages in 1944 itself over the wage-levels of 1939 was 115·9 for textile industries with a maximum rise of 123 per cent for engineering industries, while the index number

* Indian Labour Gazette for August, 1946 P. 64.

of wholesale prices in 1944 stood at 228·3 for the month of May, 1946 and at 248·2 for June, 1946 and the working class cost of living indices stood for June, 1945-46 at 224 for Bombay and for June, 1946 at 247, the maximum variation in the cost of living indices being for Cawnpore with 351, Jalgaon coming next with 327 in July, 1946 and June, 1946 respectively ; Jubbulpore coming third with 306 for July, 1946. It is needless to urge that the composition of the cost structure under the abnormal conditions of the market could not bring about a lasting adjustment between the wage-standards and the dynamics of the cost of living indices, because of the patent resistances in the industrial cost structure generated by uneconomic localisation of the industrial system, complicated by the destabilising factors of the period of transition, from war-time adjustment of production to inflationary and abnormal price-formations, to peace-time readjustment of prices and production and the uncertain conditions prevailing in the secondary markets of the country due to abnormal distortions in the structure of relative prices arising from the complicated economic conjuncture dominated by : inflationary movements in the money market, rationing of consumption, shortage of primary and secondary goods, and erratic shifts and changes in the velocity of circulation of goods and services, unpredictable general dynamics of the secondary markets in the country and the fear of revival of international competition, together with the difficulties of raising the productivity of the industrial system through technical reconstruction of the units, in order to keep the industrial cost structures adequately flexible to

absorb readjustment of wages to the abnormal fluctuations in the urban cost of living; since widespread import of capital goods is not possible in the extraordinary situation in which all the major industrial powers of the world are placed today and the abnormal conditions which hamper free movements of capital goods and services among the nations of the world. This enormous difficulty of securing up-to-date capital equipment to effectively manage the composition of the industrial cost structure has reduced the capacity of the industrial system to keep up adequate adjustment between wage-levels and movements in the cost of living indices in order to ensure, for the labourers, a structure of real wages which will adequately stabilise the labour market in the urban areas of the country.

Because of the complicated and rigid framework of economic adjustments in which the industrial structure of the country is enveloped by the economic evolution of the country in the last hundred and fifty years, the Royal Commission on Labour had no alternative but to plead for the perpetuation of the contact between the Indian labourer and his village: "*No wholesale or sudden change in the existing system is practicable*", they wrote, "whatever view is reached, industry must depend for a long time to come on the villages and the tenacity with which many industrial workers have retained their village connection shows that the system has deep roots. Our considered opinion is that, in the *present circumstances, the link with the village is a definite asset and that the general aim should be, not to undermine it, but to encourage it and, as far as possible, to regularise it.*" The thesis developed by the Royal

Commission on Labour demands closer analysis.*

The Indian industrial structure has long accumulated certain heavy resistances in its cost-structure, generated by uneconomic localisation of the industrial units in the main distributing centres of the country, which have been complicated by the rigidities of a transport system which has had no co-ordinated development ever since the first Indian railways were constructed from Madras to Arkonam, from Bombay to Kalyan and from Calcutta to Raniganj in the middle of the last century, and was no conscious part of the general economic evolution of the country, since the major portion of the transport system was more strategic than economic, and unlike in the other industrial countries of the world, the localisation of the industrial structures followed the evolution of transport in the country, instead of the transport system evolving itself to assist and coordinate the evolution of industry, agriculture and trade of the country to bring them effectively into the orbit of international economic and commercial relationships, as we shall see in a subsequent chapter of the present book.

Naturally this 'technical' localisation of the industrial structure of the country which, itself, was uncoordinated with the development of primary production, or with the structure of employment preference ratios of the rural population or with the dynamics of consumption of industrial products within the country, rendered the industrial structure economically incapable of either maintaining a resilient cost

* Vide Report of the Royal Commission on Labour, P, 20, *Italics mine.*

structure which would absorb 'wage fluctuations' calculated to stabilise the industrial labour market or keeping up 'economic' efficiency in the secondary markets where the dynamics of price-formations were determined by forces of international standards of industrial productivity; and price-divergences were wiped out by quick adjustments through movements of goods and services from the other industrial zones of the world. To these rigidities and resistances which 'uneconomic' and purely technical localisation of the industrial structure had created in the apparatus of adjustment of cost formations to price-fluctuations in the secondary markets are to be added the over-whelming fact that India was late in the adoption of modern technology in industrial production, and industrial production did not come to India until the other metropolitan powers had grown to their full 'economic stature' in industrial evolution, and this, along with the inherent structural and functional resistances which the industrial system had accumulated, seriously undermined the 'economic' potential of the Indian industrial structure either to stand heavy wage-fluctuations or to maintain the requisite degree of flexibility in its 'cost structure', which alone would have given the industrial structure the capacity to transform the pattern of employment preferences and consumption-propensities of the rural zones of the country through adequate absorption of the redundant rural labour in the urban labour markets, which would have drastically, raised the productivity of the agrarian unit of production through the regulation of employment pressures on the land resources of the country, transformed the structure of agricultural

incomes and raised the rural standards of living by widening the margin between incomes and costs of living and would have emerged, through the process of adjustment, as a coordinated part of the general economic evolution of the country and could have maintained an adequate degree of 'productivity' which would have armed the industrial structure with the 'economic' energy to withstand the abnormal price-formations in the secondary markets—not only national but also inter-national.

Such would have been the line of industrial evolution in the country, had the localisation of the industrial structure been carefully planned with due consideration to the availability of labour, vicinity of raw materials, proximity of power resources and the composition of industrial markets and had the transport system of the country been planned to assist '*economic*' localisation of the industrial structure and 'specialisation' of agricultural production. Instead, the first cotton mill in India was started at Ghosery near Calcutta in 1838 and the second mill was started in Bombay in 1853 and we are told that "the tendency during the last twenty-five years has been more towards enlarging existing mills rather than opening new ones—"* a tendency which has in *no* way attempted to lift the industrial structure of the country from the 'technical' pattern of localisation in which it had so long been encased. The jute industry, which was equally handicapped by wrong localisation began to feel the heavy hand of maladjustment just twenty years after its initiation, as early as 1875, "when there was a temporary set-back owing to

* Hand book of Commercial Information, P 172

a too rapid increase in the number of looms.”* We are also told that “the rate of development has not been uniform in all centres of the industry (cotton) in India, and although in the initial stages, the industry was concentrated in Bombay owing to its geographical and climatic situation, this pre-eminence of Bombay was not maintained in subsequent years.”† Similarly the Royal Commission on Labour observed : “There has recently been a tendency for the industry (cotton industry) to *push into the smaller towns in the cotton growing tracts. These have the advantage, not possessed by Bombay, of proximity to recruiting grounds for labour and to the markets for both the raw materials and the manufactured article. Generally speaking, the industry has been expanding nearly everywhere except in Bombay and the decline in employment in that city has been balanced by the expansion elsewhere*”.‡ demonstrating the belated recognition of the importance of *economic factors* in the localisation of the industrial structure. Nor has there been any attempt on the part of the other industries to climb out of the rut of ‘technical’ localisation of the industries in the large urban centres. We are told, “the remaining factories covered a wide and constantly increasing range of industries scattered over the whole of India, *but naturally concentrated* chiefly in the larger towns,”§ which includes paper mills, cigarette factories, petroleum refineries, woollen mills, match-factories and tanneries.

Such localisation is particularly disadvantageous

* Handbook of Commercial Information, P. 147.

† Italics mine : Indian Year Book 1945-46 P. 713.

‡ Italics mine : Report P. 7.

§ Vide op cit P. 9.

to the evolution of an adequate labour market, the powerful forces of urban development, sanitation and morals, costs of living and standards of life, militating against the formation of a permanent labour market in the urban centres of the country. Thus the Royal Commission on Labour tells us : "With the exception of Ahmedabad, which is virtually limited to a single industry and has a little over 70,000 operatives, there is *no centre with as many as 30,000 permanent factory workers.*"* and "Many of the remaining factories are concentrated in capitals where the factory population is a small part of the total population, such as Delhi, Lahore, Lucknow and Nagpur."†

The industrial evolution of the country, with the type of localisation of which it is a victim today, has not only been unable to consolidate any adequate labour market in the country, but has a lasting impress upon the productivity of labour by affecting the quality of the population which it draws to the urban centres through its wage-structure. Thus the Royal Commission on Labour records : "Poverty....is not the only disability which drives the villager to the factory.All over India there are strata of population who suffer from serious social disabilities, lower casts and those who are regarded as outside the pale of Hindu society..migrate to industrial centres. In addition to those who migrate to escape from destitution or disabilities..the new world of industry offers a refuge to those who are anxious to

* Italics Mine Report p. 9.

† Italics Mine Ibid. P. 10.

escape from family conditions that have become intolerable, or from the penalties of law, or from the *more severe penalties with which the village visits offences against its social and moral codes.*"* Obviously the Indian labour market is composed of 'fugitives' from the rural areas of the country, from its economic structure, and from the social disabilities of individuals and castes and from the penalties of law which must have a devastating effect on the quality of the labour-market and must contaminate the productivity of the industrial structure. Naturally, "the industrial recruit is not prompted by the lure of city life or by any great ambition. The city, as such, has no attraction for him, and when he leaves the village, he has seldom an ambition beyond that of securing the necessities of life. *Few industrial workers would remain in industry if they could secure food and clothing in the village; they are pushed, not pulled, to the city,*"† because life in the city 'tends to be more individual', he has to face a change in the diet' and accustom himself to a radically different climate, not only meteorological, but also social and cultural, and his new surroundings are fraught with peril‡ which he had never experienced before, because conditions in most centres, are "not calculated to attract labour or retain it."× Naturally "among the new recruits to industry there is a considerable percentage who are unwilling to face all that is involved in the change and find their way back to village."÷

* Italics mine, Report pp. 15-16.

† Italics mine, Report of Royal Commission on Labour P. 16.

‡ Ibid P. 17.

× Ibid P. 22.

÷ Ibid P. 18.

These foregoing observations should prove that the part played by the industrial structure of the country in transforming employment pressures in the rural zones of the country is utterly insignificant ; nor has the labour-population, which it has been able to draw to the urban zones, been of a very high quality of general and technical efficiency. The abnormal fluidity of the urban labour market has brought advantages neither to the agrarian zones of the country by equalising employment-pressures on the rural structure of occupation, nor to the industrial structure, where every attempt to adjust wage-fluctuations to price-formations in a regime of falling prices for secondary products generates heavy urban exodus. The announcement of a 20 per cent cut in 1923 in Ahmedabad fermented a strike which "was by far the largest and the most distrous that had occurred in that city. It involved nearly 45,000 work-people and resulted in a total loss of nearly two and a half million mandays"* Similarly the "beginning of the year 1933, saw the intensification of a depression which had set in a year or so before. With the continued fall in prices, the purchasing power of the agriculturist had worsened and, as a consequence, stocks of manufactured articles on the hands of the industrialists were accumulated...The first beginning at reducing wages in organised industry was made in the cotton textile mills in Bombay...Many mills closed down for a few months and reopened with offers of reduced wages ..*workers had no option but to accept employment* on the reduced rates."† because of

* Indian Year Book 1945-46 P. 480.

† Indian Year Book 1945-46 P, 482.

the heavy depression in the agrarian zones and the intensification of employment pressures on the land resources of the country due to the abnormal increase of population in the preceding years.

It is needless to urge that wage-reductions cannot be effected without creating terrific resistances in the labour markets in all urban centres. India's industrial system stands in a different category from the industrial systems of the other countries which are not hampered by the severe economic rigidities in the composition of their cost structure through the presence of factors like : uneconomic localisation, the resistances inherent in a subsistence economy to the formation of flexible price structure in secondary markets, price rigidities due to intense competition from the more powerful metropolitan zones of the world, inflexibility of wage-trends and their impact upon the dynamics of the labour market, the problem of high degree population pressures with disastrous effects on the urban wage-standards and standard of living in the rural as well as urban zones, the rigid ratios of foreign trade particularly in regard to a country which cannot maintain, what Hansen calls, "cost structure parities" with other metropolitan zones in industry—problems which the Indian industrial structure has to solve, if it is to keep its economic balance in the hard days of post war readjustment of prices and production.

The mightiest problem that looms large over the urban labour markets today threatening the integrity of the urban wage-standards and standards of living is the problem of heavy interzonal and interoccupational movements of population generated by a growing intensification of population pressures in rural zones

and the terrific impact it will exert on the rural standards of life, and structures of agrarian incomes. It is in this light that the statement : "the workers had no option but to accept employment on the reduced rates"* is to be read. If, in the past, "throughout the greater part of its history, organised industry has experienced a shortage of labour,"† the time is fast approaching, with phenomenal population-pressures on the land resources of the country, when the labour markets of India will be flooded by fugitives from fast-contracting rural standards of living, which cannot go without contaminating the industrial structure of the country by distorting its wage-levels, standards of living in urban zones, industrial incomes, industrial productivity and the composition and course of foreign trade, as the fast-contracting frontiers of secondary markets at home generated by deflated agricultural incomes will force the industrial system either to seek foreign markets for its products, or to face the problem of economic stagnation. According to the report of the Tariff Board on cotton textile industry in 1932, labour costs in the textile industry absorbed 49.40 per cent of total "costs" in Bombay, 53.80 per cent in Ahmedabad, 40.75 per cent in Cawnpore, 51.60 per cent in Delhi, 42.40 per cent in Calcutta, 38.60 per cent in Nagpur 52.65 per cent in Baroda.‡ and these trends in the composition of the cost structure of the textile industry – the most important section of the industrial structure of the country today—should go to demons-

* Indian Year Book 1945-46 P. 482.

† Report Royal Commission on Labour P. 21.

‡ Quoted by K. Lalwani, in "Cost and Efficiency in Indian Business", Indian Journal of Economics, April 1946.

rate the extent of damage which might be wrought to industrial productivity if inundation of the urban labour market by fugitive populations from the rural zones of the country should bring about drastic reduction in wage levels, thereby not only affecting the productivity of labour through a lower standard of urban life, but also preventing the incorporation of up-to-date technical processes in industrial production to maintain "cost-structure parity" with the other industrial systems of the world. It is almost axiomatic that cheap labour or reduction of wage-levels will not mean efficiency of labour or increased productivity in industry; as the Royal Commission on Labour has observed : "it is impossible to expect any high standard of efficiency on the wages now paid in many branches of industry,"* in India. Cost structure parity cannot be attained by mere management of wage-formations ; it can only arrive by efficient technical reconstruction of industry which alone can increase productivity and keep the cost-structure adjusted to the international standards of industrial productivity.

✓It is obvious that the industrial system of the country, created and sustained by a subsistence pattern of economic relations, would collapse under the economic weight of a labour market inundated by abnormal inter-regional and interoccupational movements of population, particularly when the existing population densities all over the country are already abnormally high.

The accompanying table demonstrates how far Indian industries can rely on foreign markets to maintain their structures of production in tact.

* Report P. 210.

Exports in £s.

Articles	1913-14	1918-19	1932-33	1935-36
Cotton mfs.	8,079,972	9,360,216	2,468,881	2,195,395
Wool mfs.	167,346	117,032	508,537	621,729
Jute mfs.	18,848,759	35,101,466	16,283,826	17,617,088
Tanned skins	1,758,591	1,701,428	2,281,682	2,183,315
Silk mfs.	37,873	91,239	15,691	15,100
Sugar	91,649	328,245	15,769	17,918
Candles	157,890	203,448	35,560	39,779
Iron and Steel				
including ores	300,970	87,766	139,181	1,050,155
Chemicals & preparations	219,049	753,915	128,744	122,153

Source : Hand Book of Comm. Infn. PP. 132-135.

The conclusion is inescapable that the stability and solidarity of the Indian industrial structure must ultimately depend upon the internal markets for secondary goods and on its capacity to maintain cost structure flexibility. Thus, except in iron and steel, woollen manufactures and tanned skins, the industrial system of the country could not keep up even the 1913-14 level of external trade in 1935-36 and, it is needless to reiterate that, with the abnormal rigidities in the mechanism of cost structure parity, the work of conservation of the existing markets becomes extremely hazardous. In such an 'economic' conjuncture, in which the Indian industrial structure has to seek its economic balance in the secondary markets of the country, whose consumption-schedules are determined by the consumption propensity of the agricultural population, the thesis is inescapable, that nothing short of a coordinated reconstruction of the industrial struc-

ture of the country in order to maintain a full employment pattern of occupational balance and cost structure parities, would put the industrial system on an equal plane with the forces determining the dynamics of world prices and world production—urban as well as rural—in the post war days.

The industrial system of the country today is betraying all the morbid symptoms of lack of coordination with the general economic evolution of the country, which itself is suffering from all the morbid rigidities patent in a subsistence type of economic administration. Naturally the industrial system of the country has been unable, either to establish its economic position in the country, or assist any pattern of equalisation of population pressures on the land resources of the country by maintaining a 'labour market' which would have absorbed a progressive volume of population emerging into the employable age-groups at wage levels which could have assisted the formation of a progressive standard of life in the urban areas of the country, or maintain an integrated pattern of cost-structure parity with the metropolitan powers of the world, which could have ensured a widening market for industrial products of the country abroad. Except in the abnormal conditions of war-time shifts and changes in price-formations, which have not only raised the margin of production to abnormal heights but also have effectively sterilised competition from the more efficient industrial systems of the world, the industrial system of the country throughout the period of its evolution, has been passing through a period of grave economic maladjustment which has prevented it from transforming the structure of occupational balance

in the country to the best advantage of the growing volume of population, since the dawn of the present century.

The transient 'prosperity' and growth of the industrial structure of the country during the few years of the recent war of 1939-45 should not blind us to the real forces of 'economic adjustment' which have presided over the evolution of industry in our country for the past century and half, nor of the giant problems of production and prices which will undoubtedly emerge in future, as the metropolitan zones of the world begin their individual programmes of postwar reconstruction of prices, production and employment-rates in their industry in a coordinated drive to maintain 'full employment' levels in industrial and agrarian productivity and employment, consistent with the tempo of technical progress of the new world.

Thus, of the cotton industry in the country we read : "After a continuous period of almost unrelieved gloom extending over a period of nearly two decades,the war in Europe...opened up the prospect of a spell of comparative prosperity for the industry;"* of the silk industry, we learn "the industry has been declining in almost all parts of India."† Of the sugar industry we are told : "sheltered behind adequate tariff protection.... the sugar industry has made phenomenal progress and India has achieved the position now, of being the largest sugar producing country in the world"‡ and yet the Government

* Indian year Book 1945-46 p. 736.

† Ibid p. 747.

‡ Ibid p. 752

had to take measures "to check a too rapid growth of the industry under artificial stimulus"* by imposition and enhancement of duties on sugar in 1934-35. Thus, under the impact of the recent war, the cotton industry had expanded from 389 mills in 1939 employing 4,41,949 workers to 407 mills in 1944 employing 5,05,562 workers, and the sugar industry had expanded from 145 mills in 1939-40 to 150 in 1945-46. The Official Chronicler wrote, in his trade report in 1937-38, of the cotton industry : "The present healthy conditions have been brought about by a recovery of demand and a weakening of foreign competition"† and added that "*careful and prudent management is essential if the future prospects of the industry are to remain favourable.*"‡ Of the jute industry he recorded, "the position of the jute industry is perplexing;"§ of the sugar industry, he wrote, "some check is being placed upon the uneconomic development of the industry. How far these attempts will succeed in stabilising the industry, only the future can show."|| The verdict on the paper industry was : "the industry enjoys protection since 1932. With this help it has made good progress...But the immediate prospect of the industry are not quite assured."÷

There is no doubt that the abnormal expansion of the Indian industrial structure under the exceptional

* Ibid p. 753.

† Review of the Trade of India, 1937-38 pp. 35-36.

‡ Italics Mine, Ibid.

§ Ibid p. 39.

|| Ibid p. 52.

÷ Ibid p. 57.

stimulus accorded by the recent war has rendered these judgments on the prospects of specific industries, a bit outmoded today. Even the abnormal conditions in the secondary markets of the country brought about by the recent war have not been able to enable the industrial structure either to drastically transform the structure of occupational preference ratios of the rural population of the country, or even to stabilise the volume of labour that it has been able to attract to the urban centres of the country. The growth of labour employed in all organised industries of the country has been only from 1,748,561 in 1939 to 2,436,312 in 1943 and 2,520,251 in 1944* an increase of only 771,690 labourers during the artificial period of the war of 1939-45, while the rate of population-growth in the country has been six million per year on an average ! And even then, the number of labour disputes during these years reached almost peak-figures, unprecedented since 1921—while in 1940, the number of disputes had been 322 involving 452,529 workers, by 1943, the number of disputes had shot up to 716 involving 525,085 workers, which had gone up in 1946 to 1469 disputes involving 1,851,513 workers, with forty per cent of the disputes arising in connection with wage and dearness allowance questions. It is needless to assert that the Indian industrial structure was thoroughly incompetent to stabilise the labour market through adequate adjustment of wage trends to rising costs of urban living, even under the artificial inflation of prices and profits sustained by the

* Vide Indian Labour Gazette, Jan. 1946 p. 227.

abnormal conditions of the secondary markets during the recent war.

Obviously, the argument appears redundant that, even if the existing levels of price-formations in the secondary markets are to be maintained, the Indian industrial system would be important to transform the composition of occupational preference ratios in the rural zones of the country, to bring about equalisation of employment pressures in national economic evolution. Nor are the signs for maintaining the existing structure of industrial prices, wage-standards and industrial incomes, propitious. Stabilisation of industrial prices at the present levels would be impossible without artificial management of economic evolution in the country, which would sterilise technical progress and deny three hundred million consumers of industrial products in our country the economic advantages of global technical progress and would ultimately damage the urban and rural standards of living, contaminate employment rates and plunge the economic system of the country into economic chaos and anarchy of unprecedented magnitude, particularly when the growing pressure of population manifests itself on the employment structures of the urban and rural zones of the country, creating abnormal interregional and inter-occupational movements of population.

These foregoing data should have emphasised the utter incapacity of the existing industrial structure of the country to sustain heavy employment pressures on the urban structure of occupations, with all the enormous economic rigidities which the 'uneconomic' evolution of the industrial structure in the past hundred years has imposed upon it; since the industrial system

of the country has evolved independently of the general economic matrix, as is inherent in any pattern of unplanned and unregulated economic evolution, while the impact of the dynamics of a secondary market, conditioned by the consumption-propensity of a subsistence economy, has prevented not only diversification of the industrial structure, but also adequate stabilisation of the labour market, either through more efficient localisation of industries or through adequate management of wage-fluctuations to maintain a progressive structure of 'real' standards of life in the urban centres of this country.

There is little doubt that the employment capacity of the existing industrial structure cannot be increased without dissolution of the 'economic' rigidities in the cost structure of Indian industries which have suffered from 'uneconomic localisation' and the patent 'economic deficiencies' of a subsistence market for industrial products, further complicated by international movements in 'prices' and "productivity" in regard to industrial markets. In the past, attempts to maintain 'cost structure parity' in industrial goods through tariff manipulation under 'selective protection' ended in an artificial growth of the specific industries concerned, irrespective of the damage it inflicted on the consuming population of the rural zones of the country, who form over seventy-five per cent of the total population, particularly as the evolution of sugar, paper and textile industries clearly demonstrates, besides creating gross 'misdirection' of productive resources in the country. And the benefit which the country derived from selective protection to industries, either through equalisation of employment pressures between agri-

cultural and industrial occupations, or through transformation of industrial and agricultural income structures, has been infinitesimal—a conclusion, which is irresistible from a dispassionate assessment of the impact of selective protection to Indian industries, on the general economic evolution of the country.

Any attempt at stabilisation of the industrial structure through management of price-fluctuations, would not only put heavy pressure on the structure of relative prices, but also would be an 'uneconomic' way of industrial reconstruction for a country with a subsistence economy, since mere stabilisation of industrial prices without any attempt at stabilisation of consumption propensities of the vast agrarian populations, through regulation of agrarian productivity involving rural exodus, would only end in 'economic confusion' and serious contraction of the industrial markets of the country, which is certainly not the right way of seeking economic balance for our industrial structure. And general price-stabilisation, including all sections of the national market, cannot be achieved as long as the country has to remain an integral part of the world economic order; nor can any policy of general economic stabilisation be attained through price-management with the existing industrial structure, which has been heavily burdened with economic rigidities, which would easily neutralise any attempt at maintaining an integral pattern of cost structure parity, without which it is impossible to reduce the severity of international competition in the industrial markets of the country by the other powerful industrial zones of the world. Nor can international competition in the national markets for secondary articles be regulated through general tariff

reconstruction and management, to keep up an artificial pattern of price-formations without depriving the vast agricultural consumers of the industrial products, of the benefits of world progress in industrial technology, nor will such trade restrictions and tariff barriers be an effective preventive against 'uneconomical evolution' of the industrial structure, since it is common economic knowledge that no adjustment in productivity—industrial as well as agricultural—could be real which did not start with a drastic technical reconstruction of the unit of production—agricultural as well as industrial—to maintain 'cost structure' parity with the progressive zones of the world.

If the foregoing analysis is correct, then the industrial problems of India assume a special import. The industrial system of the country is betraying grave symptoms of uncoordinated economic evolution of a type hardly witnessed in any of the industrially progressive zones of the world. It has been the victim of 'uneconomic localisation' which has been dictated by a transport system and an urban evolution, which formed no conscious part of the general economic evolution of the country; and this specific feature of Indian industrial evolution has prevented the emergence of a stable labour-market which invests the labour problems of the country with a speciality which is not found any where else in the world; thus the labour market has been the creation of rural distress, economic and social; and the giant problems of urbanising labour in the "distributing centres" of the country together with the patent rigidities of the wage structure in industries has kept the urban labour market in an eminently fluid state for the past half a century of industrial evolution; naturally, the industrial structure of the country which

has to maintain its stability and solidarity on the 'subsistence economy' of the vast consuming population in the rural zones, has been unable to sustain any adequate degree of inter-occupational balance by creating 'rural exodus' with a view to lift the enormous pressure of population on the rural structure of incomes and standards of living, since its capacity to adjust wage-fluctuations to the dynamics of the costs of living in urban zones is severely limited, firstly, by the rigidities of its cost structure, secondly, by the fluidity and uncertainty of the internal markets for industrial products which react to the composition of the consumption propensity of a rural population whose income structure and standard of living are grossly distorted by an ever intensifying pressure of population on the rural resources of the country, and finally, by the uncertain nature of foreign markets for industrial goods where price fluctuations may be generated by several factors like : competition from more efficient industrial zones, the dynamics of consumption propensities of the markets, the structure of incomes, the composition of standards of living, fluctuations, in the money markets tariff arrangements - bilateral and multilateral, regional programmes of industrialisation and diversification of industries - to give a few of the uncertainties which go to determine the contours of external markets for industrial products.

Because of the difficulty of stabilising 'labour-markets' within the economic limitations of the industrial structure of the country, with all the 'patent economic rigidities to which the industrial system is heir, not only structural but also functional, the Royal Commission pleaded for the regularisation of the existing link

between Indian labour and the village.* The baneful effects of maintaining and propagating this incongruous contact between urban labour and rural life on the 'competitive' efficiency of labour in an industrial system which has to maintain a certain degree of labour productivity in order to sustain a flexible cost structure was evidently not realised by the Royal Commission on Labour. It is almost the first axiom of labour economics that a fluid labour-market cannot keep up productive efficiency in its ranks, even as it cannot stabilise wage-standards or sustain that labour consciousness which alone can guarantee adequate power for labour in its fight for effective equalisation between wage-levels and the moving indices of the cost of living. The clumsy methods of labour recruitment that obtain in the country today with the vicious but 'necessary' spiral of middlemen for labour—like overseers, labour contractors, *mukkadams* and *mistriest*† clearly demonstrate the extremely vulnerable position in which labour is placed in economic system of the country, and the enormous efforts that the Government has to put forth to maintain semblance of justice between the employers and the employees in the various industries in the country: "it must be obvious that the rates of wages paid in Indian industries must vary—not only as between industry, and industry but also between centre and centre, and unit and unit even in the same centre in any one industry,"‡ the degree of wage-deviation depending upon the intensity of economic distress in the rural zones adjoining the Industrial area and the

* Vide Report, Royal Commission on Labour, p. 20.

† See Report Royal Commission on Labour P. 22 et seq.

‡ Indian Year Book 1945-46 P. 528.

capacity of labourers to effect a bargain regarding their wages with their employers.

Obviously, no stabilisation of the labour markets is possible without drastic management of wage-fluctuations for which the industrial system of the country is not prepared in the economic conjuncture of today; and it is needless to urge that without the exigency of a stabilised labour-market and without adequate reconstruction of the forces which determine the composition of the urban labour market to sustain heavy inter-occupational migration of labour, no scheme of lasting reconstruction of rural life can be effectively implemented in view of the menacing rhythm of population progress in the country and the pressure which it exerts on the structure of rural economy.

Reconstruction of the economic life of the country will be futile without an integral structure of employment-balances which alone can ensure higher standards of living in the rural and urban areas of the country and an integrated structure of employment-balances cannot be implemented without reconstruction of the industrial structure of the country to sustain heavier employment-pressures.

The forgoing discussion of the present position and employment capacity of the industrial structure of the country must have demonstrated the utter incapacity of the existing industrial structure either to withstand heavy employment pressures or to transform, through readjustment of the urban wage structures, the structure of employment preference ratios of the population to a degree where heavy rural exodus might be generated. And we have also seen the incongruous structure of

* Indian Year Book 1945-46 P. 528.

economic rigidities, which any attempt to equate competitive price-formations with the economic abnormalities of the present industrial cost structure might create in the general scheme of economic evolution in the country ; and the economic havoc with any pattern of economic stabilisation which started from the side of price-formations should work by getting up an artificial framework of economic adjustments, which would end by reducing the productivity of the industrial structure and distorting the pattern of cost structure parities which alone can keep the national economic system in the fore-front of global technical progress in industry and agriculture.

It is patent that, in the light of the arguments advanced, no lasting programme for the stabilisation of industrial evolution in the country with the stabilisation of the labour market and progressive employment rates as an integral part of general economic stabilisation can be launched without drastic and far-reaching schemes of economic reconstruction of the industrial structure of the country calculated to liquidate the major economic rigidities which have hampered the evolution of industry in our country in the past.

Such a programme of industrial rehabilitation will have to start with certain important assumptions in order to reconstruct the industrial structure of the country to maintain a 'full employment' pattern of employment-rates in industry : (a) more economic localisation of the industrial structure ; (b) decentralisation and diversification of industrial units ; (c) controlled industrial location calculated to stabilise labour markets of the country ; (d) coordination of industrial evolution with the general economic evolution in the region ; (e) controlled evolution of regional markets

for industrial products; (f) management of wage fluctuations to maintain full employment standards of living; (g) controlled regulation of inter-regional movements of industrial products; (h) controlled evolution of the industrial structure with regard to technical progress in the processes of manufacture; (i) regulated reconstruction of the special industries of the region; (j) regulation of inter-occupational as well as inter-regional mobility of labour ; (k) regulation of industrial investment in regional industry and (l) regulation of 'consumption' of industrial products by 'speculators' and monopolists—to give some of the major schemes which will have to be implemented before the industrial system of the country can be prepared to take its place in any programme for the integrated economic development of the country with a 'full employment' pattern of economic evolution.

Our foregoing study of the main trends of industrial evolution in our country should serve to emphasise the urgency by rescuing the industrial system from the baneful effects of present localisation of industrial units in the urban centres of the country, by synchronising industrial development with adequate programmes of general economic stabilisation for the whole country calculated to maintain higher standards of living not only in urban areas, but also in the rural zones consistent with full employment-levels of industrial and agrarian productivity and income structures.

We have seen earlier in the present volume that the only way of rescuing the economic system of the country from the rigid framework of a subsistence type of economic administration of primary and industrial resources is to carry the economic system through three definite stages of economic transition : from subsistence

economy to to regional economic self sufficiency ; from regional economic self-sufficiency to interrgeional multi-lateral economic relationships and from inter-regional multilateral economic relationships to international multilateral economic adjustment, maintaining throughout the periods of transition an equilibrated pattern of employment-pressures at full employment levels of economic conservation of the rural and urban resources of the country.

Such a programme of economic stabilsation cannot be attained without the erection of an occupational structure which will maintain adequate balance in employment pressures in the rural as well as urban zones of the country. Our study of the present trends and problems of the industrial structure has proved beyond any shadow of serious doubt, the utter incapacity of the industrial structure of the country either to stabilise even the existing labour market at adequate wage-levels or even to maintain flexibility in its cost structure which would ensure an expanding market for industrial products either at home or abroad. It is needless to reiterate that the industrial structure of the country would be impotent to transform the pattern of occupational preference ratios of the growing volume of population emerging each year into the employable age-groups for many years to come, within the existing frame-work of economic adjustments, while even the most progressive industrial systems of the world are today haunted by grim problem of effecting an adequate structure of economic adjustment between the rate of industrial employment and the pace of technical progress, through the maintenance of 'full employment' pattern of economic evolution in the post-war days.

The most urgent problem of economic administration in the industrial world of today is that of effecting synchronisation between the progress of employment-rates and the tempo of technical advance through a three-fold programme of economic adjustment : (a) of maintaining at all times adequate total outlay; (b) of controlling location of industry and (c) of securing the organised mobility of labour.* Today India is suffering, under the unplanned pattern of economic adjustments of which the industrial system is only a part, from the 'unemployment' of "a substantial proportion of the productive resources of the country,"† agricultural as well as industrial, with the consequence that there is a menacing degree of 'disguised unemployment' not only of labour, but also of the other factors of production; naturally, the volume of unplanned total outlay is reflected in the enormous difficulties patent in our industrial evolution today and the absence of an expanding market for industrial products which alone would have enabled the industrial structure of the country to stabilise the labour-markets, which are in a highly fluid state today, and transformed the structure of occupational preferences which would have meant adequate adjustment between employment pressures and the structure of rural production and would have guaranteed to the population of the country—which has kept up its progress-rate of six million a year according to the Census of 1941—an adequate level of agricultural and industrial real incomes, which would have

* Vide Sir William Beveridge : Full Employment in a Free Society p. 29.

† Sir W. Beveridge, *op. cit.* P. 124.

drastically transformed the volume as well as pace of total outlay in the community—consumption outlay, outlay on consumers goods and producers goods and communal outlay—to maintain the technical and economic efficiency of the national structure of production—agrarian as well as industrial.

The ‘total outlay’ which a subsistence type of agrarian production can sustain is hardly adequate to maintain any reasonable degree of flexibility in the industrial structure or to ensure any effective degree of stability in the labour market ; and the industrial structure imbibes all the structural as well functional rigidities in its process of evolution created by the frigid ratios of economic administration inherent in the composition of total outlay under a subsistence economy.

Logically, increase of ‘total outlay’ to maintain ‘full employment’ levels of economic evolution in industry and agriculture, in a subsistence economy, is contingent on an adequate programme of coordinated evolution of all sections of national economy, which must involve, in Hansen’s language, a structural change in the economies of undeveloped countries.”* which must include definite structural changes in the industrial system of our country to bring it effectively into the framework of international economic collaboration.†

Obviously, the existing industrial structure of the country cannot be expected, burdened as it is with all the technical and economic rigidities which have rend-

* America’s Role in the World Economy P. 30.

† Vide op cit. PP. 30–31 and PP. 181–182.

ered it incompetent even to stabilise the contemporary rickety labour market in the urban areas, to assist a realignment of industrial and agrarian productivity which would enable the Indian economic system to emerge into the framework of international economic relations to the lasting advantage of the four hundred million people of India or to ensure the economic stability of the world.

Any programme for preparing the industrial system of the country to maintain its balance in national economic evolution in the hard days of post war economic readjustment must start by dissolving the 'economic rigidities' of the industrial system, through more effective localisation of industrial units and the diversification and decentralisation of the industrial structure which alone would assist the implementation of an adequate programme of regulated 'localisation' of the industrial units and their incorporation into a 'full employment' pattern of economic evolution calculated to ensure for the four hundred million people of India 'standards of living' in the urban as well as in the rural zones of the country—consistent with the accepted standards of international economic 'civilisation'.

Maintenance of the industrial structure as a coordinated part of the economic evolution of the country to sustain 'full employment patterns' of economic evolution implies decentralisation and diversification of the industrial structure with a view to create and sustain an integrated structure of employment balances in the administration of regional and national productive resources, and would mean drastic transformation of the existing industrial structure of the country to bring it into the framework of general economic stabi-

lisation programmes with a view to equilibrate the volume and velocity of 'total outlay' with the dynamics of employment preferences of the volume of population emerging into the employable age-groups.

Naturally, regional industrial evolution to sustain an adequate structure of 'full employment' levels of all round productivity implies decentralisation and regionalisation of the industrial structure and dispersion of industrial units in the rural zones of the country consistent with the exigencies of regional programmes of economic conservation of agrarian and industrial resources of the regions concerned. The dynamics of the labour-market in our country, the forces which go to determine the composition of labour markets, definitely point to the 'economic' unsuitability of a 'centralised' pattern of industrial evolution and to the unsolved and unsurmountable problems of 'urbanisation of labour' and to the definite advantages of 'demobilisation' of the industrial structure and dispersion of the industrial units among the rural zones of the country, which alone would obviate all the major problems of stabilisation of urban labour markets like : adequate reconstruction of wage-standards and development of labour colonies in the urban centres, problems which have not yet been satisfactorily solved in any 'industrial' area of the country. Thus of the housing problem alone in 'industrial areas' the Royal Commission on Labour wrote : "In the busiest centres, the houses are built close together to make use of all the available space . . . Houses, many without plinths, windows and adequate ventilation, usually consist of a single small room In order to secure some privacy, old kerosene tins and gunny bags are used as

screens ... *In dwellings such as these human beings are born, sleep and eat and die;*"† of the 'bustees' of Bengal the Commission recorded, "the workers have found it difficult to obtain adequate accommodation and rents are so high as to absorb a considerable proportion of the worker's income"† except in the Howrah zone and added a codicil "the majority remain unprovided with decent dwellings," and "the general problem of the housing of the workers is still unsolved."‡ Of the 'chawls' in Bombay they recorded : "there can be no question that many of the older types of mill *chawls* are detrimental to the health of their occupants"§ though a good deal of improvement in housing of workers had been effected by the Bombay Development Department. Of the "Cheries" of Madras Presidency, we are told : "Conditions in Madras, Coimbatore and other urban and industrial areas are equally unsatisfactory shortage of houses is so acute that many hundreds of workers are entirely homeless and live on the streets or on the verandahs of godowns in the vicinity of the harbour. In Madura...conditions are specially bad. The Municipality has done nothing to relieve the problem ... In Coimbatore and Tuticorn no provision of any kind ... has been made .. many of the poorer classes ... squat on private land and build flimsy shelters to serve as homes ... *It is not surprising that epidemic disease frequently manifests itself in these plague spots and that both the*

+ Report, pp. 271-72. Italics mine.

† Report, P. 272.

‡ Ibid. p. 273.

§ Ibid. P.273.

sickness and mortality rates of their inmates reach high levels."* Of Cawnpore, we learn, "Cawnpore is densely overcrowded and insanitary . . . Three-quarters of the town is . . . made up of private *bustees* or *hatas*, which are covered with houses either unfit for human habitation or in great need of improvement", and "little progress has been made in the construction of additional working class-houses", in spite of the Cawnpore Improvement Trust.† Of Ahmedabad, the centre of Indian textile industry, we learn : "*the areas occupied by the working classes in Ahmedabad present pictures of terrible squalor . . . the houses are one roomed; they are badly built, insanitary, ill-ventilated and overcrowded; whilst water-supplies are altogether inadequate and latrine accommodation is almost entirely wanting. Resulting evils are, physical deterioration, high infant mortality and a high general death rate*", the only bright spot of Ahmedabad being the labour quarters built by the Asoka and Calico Mills.‡ Of Nagpur we get an equally dismal picture : "Conditions in this city are neither better nor worse than those of some of the other areas already mentioned", except in the Empress Mills Labour settlement§ zone. Of Karachi and Ajmer we learn : "*the same tale of squalor could be told of other towns and industrial centres*; but evidence of neglect and lack of supervision was nowhere more obvious than in Karachi and Ajmer."|| And earlier in their Report, the Royal commission on Labour had recorded : "*housing*

* Italics mine : Report Royal Commission on Labour p.275

† Report, P. 275-276.

‡ Vide Report, Royal Commission on Labour p. 277. Italics mine.

§ Ibid p. 277.

|| Italics Mine, p. 279.

is of the meanest description, and the indifference of the worker to the dangers of over-crowding and lack of light, ventilation and sanitation enhance its detrimental effects. Moreover shortage of houses, absence of adequate transport and the natural reluctance of the worker to live anywhere but in close proximity to his work add to the overcrowding and compel him to submit to exorbitant rent charges. *The industrial recruit is thus handicapped from the start.*"†

These elaborate extracts from the Royal Commission on Labour should go to prove the unsuitability of centralised type of industrialisation and the baneful effects of a such an industrialisation on the physical and moral efficiency and health of the labour population and as an overwhelming factor in the destabilisation of the labour market of the country. It is these appalling conditions of urbanisation of labour population and the impossibility of creating better urban conditions for labour that must have impelled the Royal Commission Labour to plead for the propagation and regularisation of the contact between urban labour and rural life.† Is there any wonder then if the average labourer in this country is "prepared to abandon the factory if work offering adequate opportunities become available in his native place?"‡

These foregoing arguments should have demonstrated the urgency of decentralising the industrial structure and dispersing the industrial units among the rural zones of the country with a view to eliminate the gigantic

† Italics Mine. Report of the Royal Commission on Labour P. 245.

† See Report PP. 19-20.

‡ Vide Report Royal Commission on Labour, P. 13.

problem of labour accommodation in the existing industrial centres and of adequately stabilising the labour-market in industry with a view to maintain an integrated pattern of employment pressures between agriculture and industry, without which no scheme of general economic stabilisation in the country to sustain a full employment pattern of economic evolution can be implemented.

The problem of localisation of industrial units with a view to sustain higher degree regional economic self-sufficiency is easy of solution in a country like India which has long maintained a subsistence pattern of economic evolution. Of the major sections of the industrial structure of the country, the cotton industry can easily be subjected to this process of decentralisation and dispersion among the rural zones as part of the regional essential industrial structure ; because, even under the present scheme of agrarian production, the raw material for the cotton industry happens to be widely dispersed all over India. Thus except in Coorg, cotton is being grown in all the Provinces of the country with heavy specialisation in Bombay, Central Provinces, Madras and the Punjab, though the cotton industry was localised heavily in Bombay, Madras and the United Provinces, Bengal and the Central Provinces while among the other Provinces, the Punjab, Bihar, Ajmer and Delhi have less than 15 thousand workers each in the industry, while Sindh has only 203 workers in cotton textile industry, with Orissa, Assam, North West Frontier Provinces having no cotton industry at all till 1944, though cotton is being grown there. Orissa has 8.5 thousand acres under cotton, Assam having 40.7 thousand acres under cotton and North West Frontier Provinces having 17.6 thousand acres of

cotton, under the present schedule of agrarian production. In the Bombay Presidency, cotton is today grown in north Gujerat, parts of Baroda State, Kathiawar, Broach and Surat zones, Khandesh, Nasik, Ahmednagar, Sholapur, Bijapur, Dharwar, Belgaum, Kolhapur and Sangli; Thar and Parkar in Sindh; in the Central Provinces, in Nirmar, Wardha and Nagpur zones and Burhanpur; in the Madras Presidency, in Bellary, Anantpur Kurnool and Cuddapah, Guntur, Kistna, Nellore and Godavari, Tinnevelley, Ramnad, Madura, Trichonopoly and Coimbatore; in the Punjab, in Lyallpur, Montgomery, Jhang, Sholapur, Sheikhupura, Gujrat, Gujranwala, Lahore, Khandesh, Multan, Mianwali, Dera Gazi Khan and Muzzaffargarh Amritsar, Jullundur, Hoshiarpur, Ludhiana, Sialkot, Jhelum, Rawalpindi, Attock, Gurdaspur, Kangra, Hissar, Rohtak, Gurgaon, Karnal, Ambala and Ferozepure; in the United Provinces, in Bulandshah, Muttra, Aligarh and Agra zones; in Bengal, in the Chittagong zone, Mymensingh, Bankura and Midnapore; in Assam, the Garo and Lushai hills; in Bihar, Saran and Ranchi area; in North West Frontier Provinces, Peshawar and Dera Ismail Khan zones.

This long catalogue of cotton growing tracts evidence the wide dispersion of the fibre all over the sub-continent and the ease with which the cotton textile industry which is today heavily centralised in Bombay, Ahmedabad, Surat, Sholapur, Broach, Jalgaon, Madras, Madura, Coimbatore, Nagpur, Cawnpore and Calcutta can be decentralised and dispersed over the rural zones of the country. The tendency for the industry to move to the interior of the country is already manifest; the Royal Commission on Labour has observed: "There has recently been a tendency for the industry to push into the smaller towns in the cotton growing

tracts. These have the advantage not possessed by Bombay of proximity to recruiting grounds for labour and to markets for both the raw materials and the manufactured article.'† Similarly we learn : "The industry's development in later years has been more rapid in other Provinces in India and particularly in the Indian States."‡

This programme of decentralisation of the cotton industry into small efficient, modernised, industrial units and their dispersion among the rural zones of the country must be preceded by a thorough economic survey of the country and the concerned regions, and the suitability of localities for the erection of industrial units in point of labour supply, vicinity of raw materials, proximity of power-resources which would have to be implemented as integral parts of river-zone developmental projects and of coordination of the industrial evolution with the tempo of general economic evolution in the region. It would be necessary to split up the seven hundred thousand rural areas of the country, for this purpose, into convenient rural zones with a cluster of villages as a convenient unit for implementing plans of coordinated pattern of high degree regional economic self-sufficiency, and also split up the industrial structure into two component parts—the essential industries, and the special industries—apart from perennial industries and seasonal industries, with a view to maximise the diversification of the occupational structure to maintain employment patterns of regional economic self-sufficiency.

† Report P. 7.

‡ Indian Year Book 1945-46 P. 732.

Such a programme of 'economic' evolution of the industrial structure does not mean the scrapping of the existing cotton textile industry, which had in 1944, 407 units, but effective regulation and control of production to confine the units to the production of special qualities of cloth for higher domestic consumption and for inter-national 'foreign' markets and would undoubtedly involve more efficient technical reconstruction of the existing urban units, as decentralisation and dispersion of the industrial units among the rural zones, together with regulated mobility of labour—inter-regional and inter-occupational, with a view to implement a 'full employment' pattern of high degree regional economic self-sufficiency, would create acute labour shortage in the 'urban' areas of today, where industries are at present located; while the decentralised and dispersed industrial units should be required to produce textiles for the average consumption of the region concerned.

Similarly among the perennial industries of today, decentralisation and dispersion can be effected in the jute industry, which is at present localised in the following provinces: Bengal, Madras, the United Provinces and Bihar, though it will remain a 'special industry' of Bengal. Greater dispersion of woollen industry also is possible, which has confined itself today to Bombay, the United Provinces and the Punjab, while it would remain as the 'special' industry of certain regions and provinces of the country; this programme can be implemented in regard to the existing textile industry of the country. Silk industry, which has spread in almost all parts with 'special' development in Bombay, also offers tempting

prospects of decentralisation and dispersion as a "special" industry of particular regions all over India.

Among the other industries which can be developed as 'essential' industries of rural regions are to be mentioned : rice milling industry which is today a perennial industry in all major provinces except in Sindh, the Central Provinces and North West Frontier Provinces, among the major provinces, and a 'seasonal' industry in Sindh and the Punjab. Rice milling industry cannot be expected to maintain its present structure and the decentralised units of the industry cannot be dispersed all over the country as a perennial industry. The nature and degree of decentralisation and dispersion of the rice milling industry depend upon the place which rice occupies in the reconstituted crop-schedules of the regions concerned.

Similarly the sugar industry can yield to an intensive programme of decentralisation and dispersion as an essential industry among the rural regions of the country, with special sectional development of the industry like the preservation and canning of fruits, preparation of jams and marmalade, biscuits manufacture, preparation of condiments, with 'special' units to develop inter-regional trade in food industries, since today there is not a single province in this country where sugar cane is not grown. Though sugar industry is heavily localised in the United Provinces and Madras as a perennial industry, it is widely dispersed all over the country as a 'seasonal' industry. Similarly dairying industry which is today found only in four Provinces, Bombay, Bengal, the United Provinces and Delhi can be improved, diversified and dispersed among the rural zones. So also the matches

industry which has already spread over all the provinces of the country except in Sindh, Orissa and Ajmer Marwara, will yield to a process of adequate decentralisation and dispersion. So too general engineering industry which will need to be widened and dispersed as the process of industrialisation of the rural zones gathers momentum. Today every province of the country has general engineering industry except N. W. F. Provinces and Ajmer-Marwara. So too tobacco industry which has spread over Madras, Bombay, Bengal, the United Provinces and Bihar, among the major provinces can yield to a process of wider dispersion.

Among the existing semi-food industries, the most important happens to be the oil industry which has spread itself over the whole of India except N. W. Frontier Provinces and Ajmer Marwara. It is needless to emphasise the importance of this industry not only from the point of view of the food requirements of the population, but also for the production of industrial oil, even apart from the place which oil-seeds occupy in the external trade of the country. In spite of the importance of oil industry, the quantity of labour consumed by the industry was only 27,294 in 1944, which represented an increase of 5055 over the figures for 1943, demonstrating the slow progress of the industry, though the extent of our trade in oil seeds and cakes was for 1935-36 about, £9·2 millions, with just over £11·6 millions for 1933-34, while in 1913-14 our external trade in oil seeds and oil cakes alone exceeded £18 millions*

* Vide Hand Book of Commercial Information, PP. 132-134.

and we are told : "the importance and the value of the trade of India in oil seeds has now been generally recognised,"* while the aggregate value of oil-seeds produced in India was well over £58 millions and India's share in world's trade in oil-seeds was in 1934-35, 13 per cent in linseed, 29 per cent in groundnuts, 36 per cent in rape and mustard, 100 per cent in castor seed and 100 per cent in nigerseed.†

Effective decentralisation and dispersion of the oil industry over the rural zones of the country would not only effect better conservation of oil-seeds production but also bring about better nutrition levels, particularly with the spread of 'vegetable oil' industry in the greater rural zones of the country, besides developing the external trade of the country in edible and industrial vegetable oils. An industry which can be dispersed as auxiliary to the oil-industry would be the manufacture of soaps and the existence of soap industry in almost all major provinces today with the exception of Sindh, the Punjab, Assam and N. W. Frontier Provinces, would facilitate the dispersion of the industry as an 'auxiliary' industry to the oil industry in the wider rural zones of the country.

Another industry which has widely spread itself all over India, strange though it may seem, is the glass industry. Except Assam, N. W. Frontier Provinces and Ajmer Marwara, all the major provinces are having units of glass industry with a high degree of localisation in the United Provinces, with Bengal, Bombay, Madras, the Punjab, Bihar, Orissa and the Central Provinces

* Hand Book of Commercial Information, P. 203.

† Ibid P. 204.

included. Only intensive research into the possibilities of developing the glass industry as 'special' regional industry can reveal the extent to which the industry can be effectively decentralised and dispersed over the rural areas of the country.

Among the new industries which can be effectively started in specific regions of the country may be mentioned : the brass and copper utensils industry, furniture industry, light mill machinery and machine tool industry, electrical goods manufacture, lac industry, rubber industry, tanneries and leather goods, plastics industry, porcelain and cement industries, chemicals industry, the paper industry, boat-building, modernisation of ancient arts and crafts, metal work, hosiery and fancy textiles, perfumery industry, to give some of the industrial activities which might be utilised, rejuvenated and modernised. Intensive research into the industrial resources of the country on a regional basis will yield information which would assist the development of special regional industries, and as the progress of economic development of the country goes on unfolding itself, new occupations might be expected to emerge in order to maintain an adequate structure of occupational balance to implement "full employment" pattern of economic evolution.

It is needless to urge that every possible channel of employment now bogged by competitive administration of natural resources of the country would be opened to maintain an adequate structure of economic adjustments. This would imply adequate economic exploitation of the vast forest resources of the country and integrated development of forest and

mineral resources, which will be rendered possible by opening up of the intractable regions of the country with a network of transport—particularly in the vast sections of the country which have so far had no benefit of transport facilities. As regards the forests of the country, we learn : “in her forests, India now possesses a property of great value, the future importance of which is hardly possible to overestimate.”† Forests have not yet been subjected to intensive research calculated to bring the vast potential forest resources into an integrated pattern of economic administration of the natural resources of the country ; nor for the development of forest industries on any appreciable scale. We have in our country six types of forests : tropical wet green forests where trees rise to a height of 200 feet, occurring in the western parts of Bombay, Madras, Coorg, Mysore, Cochin, Tavancore and the heavy monsoon areas of Bengal, Assam and Orrisa; the tropical semi-green forests occurring in Upper Assam, parts of Bengal and Orissa; moist deciduous forests covering parts of Central Provinces, Bombay, Madras, Mysore and Cochin, and certain regions of Bengal, Assam, Bihar and Orissa, the United Provinces and the Punjab, where teak is abundantly found ; dry deciduous forests occurring in Bombay, Central Provinces, Hyderabad, Mysore and Madras, the United Provinces, Bihar and Orissa where teak is found—to mention the main forest zones which are awaiting adequate exploitation and conservation for all these years. Only in recent years, expansion of the paper industry has brought about a changed out-

† Indian Year Book 1945-46 P. 656.

look regarding the 'bamboo' as an industrial raw material, and even of the 'bamboo' zones we learn, "there are still extensive areas of forests with a dense undergrowth of bamboos, which are not at present economically exploitable and which often greatly hinder other forest operations."† The subtropical wet hill forests occurring in East Himalayan zone and in the Assam-Burman range, have evergreen *oaks* and *chestnuts*, *alder* and *birch*; similarly the sub-tropical moist hill forests have trees like the *chir*, *pine* and *oaks*; similarly oak is again found in the west temperate forests along with chestnut. The chief trees in the moist temperate forests are the *spruce*, blue pine, cypress and the yew, and the cedar, maple, ash and holm oak are found in the dry temperate forests in the Himalayan range, specially in Hasara, Kashmir, Chemba, inner Gharwal and Sikkim; in the beach forests we get *causerina*. These few facts regarding our forests amply demonstrate the vast possibilities of developing major and minor forest industries in the country like lumbering, manufacture of furniture and 'constructional' goods, rope industry, bee keeping, lac preparation, basket-weaving—to give some of the important industries only which are awaiting adequate development on a sufficient penetration of the forest zones by an efficient transport system. It is needless to stress the importance of intensive research into forest resources in this connection.

Similarly, the mineral resources of the country are hardly developed on an adequate scale. No comprehensive geological survey of the country has yet

† Indian Year Book 1945-46 P. 658.

been made to explore the vast mineral wealth of the country. Of the United Provinces alone we learn that "in the Himalayan districts.....there were mines of importance...formerly; but owing to high cost of production and inaccessibility, most of them have been closed."* A comprehensive drive for the economic conservation of all regional resources together with an adequate development of transport and adjustment of transport policy to sustain 'full employment' patterns of economic administration of all available resources—natural as well as human—should go to develop mining on a scale unknown in this country in the history of economic evolution for the past hundred and fifty years.

"There is a growing belief throughout the world", writes Professor Hansen, "that a number of new international economic institutions must be undertaken, and that all nations must cooperate to secure enlightened management of these institutions so that they may contribute to the desired economic goals of stability and full employment".† Our foregoing study of industrial evolution should have amply proved that without an adequate degree of stabilisation of the industrial structure of the country through an integral scheme of decentralisation of industry and dispersion of the industrial units over the rural zones of the country, there can be no effective economic stabilisation of the industrial structure or its coordination with the dynamics of general economic evolution in the country with a view to implement adequate progra-

* Indian Year Book 1945-46 p. 155.

† America's Role in the World Economy, p. 27.

mmes of 'economic' stability and full employment which alone could bring India effectively into the world economic order of the post-war days in view of the enormous 'economic rigidities' which have sterllised the forces making for industrial progress or agrarian prosperity over the greater part of the country. The inability of the industrial system of the country today, to sustain adequate urbanisation of labour through adequate wage stabilisation programmes to maintain an integrated pattern of occupational adjustment of the growing population pressures in the country definitely emphasises that our country cannot attain any high degree of industrialisation or ensure adequate stability for the urban labour markets under a centralised pattern of industrial evolution. The immense technical and economic problems of industrial evolution of the centralised pattern, which have definitely prevented the emergence of a regular labour-market in the country either through adequate adjustment between wage fluctuations and the dynamics of cost of living formations or through adequate management of the industrial cost structure to absorb higher wage-levels consistent with the maintenance of the structure of real incomes undamaged through periods of violent fluctuations have rendered decentralisation and dispersion of the industrial units over the rural zones of the country inexorable—which alone would enable the industrial system to liquidate the structural and functional economic rigidities which have been set up by the 'uneconomic' localisation of Indian industry in the past century and half; further heavy centralisation of the industrial units in the urban centres of the country creating again menacing problems of health, efficiency and sanitation of the

labour populations, which have disgraced our urban evolution today, as we have observed, elsewhere in the chapter.

Nor can decentralisation and dispersion of the industrial structure over the rural areas of the country, in order to maintain an adequate degree of 'full employment' and industrial stability, be effectively implemented without the requisite degree of coordination between regional industrial evolution with a view to maintain a 'full employment' structure of economic adjustment with a higher standard of life as the goal of regional and national economic evolution. If regional economic evolution is to be kept adjusted to the exigencies of a coordinated pattern of inter-regional economic relationships to maintain an adequate pattern of national full employment and general economic stability, the economics of intra-regional stabilisation programmes postulates effective coordination between the different sections of regional economic evolution—like the evolution of regional industry, of regional agriculture, of inter-regional trade, of regional transport and the composition and functioning of regional money market—to maintain regional economic stabilisation schemes, which would sustain higher standards of rural and urban living.

Such a scheme naturally implies the elimination of all economic forces in regional industrial evolution which might cause deviation in the structure of regional economic relationships and distort the evolution of industry from the "full employment" patterns of economic adjustment by creating abnormal divergences in industrial productivity, wage standards, income struc-

tures, the structure of saving—investment balances in industry and the employment capacity of the industrial structure.

Thus industrial evolution to sustain 'full employment' patterns of economic adjustment would imply adequate stabilisation of all inter-regional forces of economic administration which would distort the delicate structure of economic balances, and will have to start with price stabilisation programmes involving effective control not only of inter-regional movements of goods caused by sectional price-fluctuations, but also regulation of any divergences which might be caused by inter-regional flow of purchasing power and logically implies the drastic regulation not only of transport and of the forces which manifest themselves in the money-market, but also of adequate management of inter-regional economic relations to maintain 'full employment' standard of regional economic evolution in tact.

It is here that the argument for the establishment of new regional and interregional economic institutions for the effective regulation of regional economic evolution and inter-regional economic relationships to sustain "full employment" structure of economic adjustments becomes imperious, involving coordination and integration of all sectional economic reconstruction programmes into a comprehensive scheme of regional economic reconstruction.

In the industrial sphere, such a scheme of economic adjustments would imply, besides an adequate degree of economic location of the diversified and diffused industrial structure, stabilisation of the labour-market with adequate schemes for the stabilisation of wage-standards consistent with the maintenance of progres-

sive productivity of the industrial structure, as well as with the resilience of the structure of employment balances, industrial incomes and diversification and development of regional markets for industrial products in the case of 'essential' regional industries, and with the maintenance of adequate extension of inter-regional economic relationship in the case of the special industries of each region.

The immense difficulties in launching and sustaining such a delicate balance in the adjustment of the forces of regional economic evolution and integration of regional economic evolution with the dynamics of national economic evolution to maintain 'full employment' patterns of economic adjustments, are not to be underrated. It is redundant to assert the imperious urgency of reducing the irresistible divergences between the progress of employment rates and the pace of technical progress into a manageable pattern of economic adjustments, without which no programme of 'full employment—regional, national and inter-national—can be efficiently implemented. Nor is the task of striking an adequate balance between a "full employment" structure of occupational readjustments and the unpredictable dynamics of inter-national forces of technical progress, which goes on creating gaps in the regional and national labour-markets by affecting labour-productivity, and the labour absorption capacity of the industrial structure, an easy one, in view of the enormous magnitude of economic forces which incessantly create abnormal deviations and divergences in the structure of economic adjustments and the difficulty of maintaining all sections of regional economic evolution resilient to receive and absorb all forces of economic evolution

calculated to distort industrial and agrarian productivity and industrial and agrarian wage and price-formations.

The problem of economic stabilisation for a subsistence zone like India through the creation and maintenance of an integrated pattern of employment pressures to sustain 'full employment' is highly complicated not only by the presence of enormous 'economic rigidities' in the structure of economic adjustments generated by the 'unplanned' evolution of the country in the past hundred years, but also by the impact of 'external' economic forces and problems of population progress which make enormous resilience in the pattern of economic stabilisation, imperative. Naturally implementing a 'full employment' programme of regulation of economic evolution in India presents more complicated problems of economic administration than those which are offered by the subsistence zones of eastern Europe about which we are told: "The task of industrialising the area is so great and the scope for the technician so extensive that those entrusted with the carrying out of a programme might easily conceive of industrialisation as an end in itself. Only if the drive and energy of the technical engineer is matched by that of the social engineer will industrialisation achieve its purpose: that is, the improvement of both the standard of living and the cultural level of the whole community. In planning the location of various industries, therefore, not only raw materials and communication must be considered, but also housing accommodation and other necessities for the workers involved."*

* Agrarian Problem from the Baltic to the Aegean PP, 85-86.

It would not be out of place here to urge that, to use Sir William Beveridge's phraseology, "Employment is wanted as a means to more consumption or more leisure, *as a means to a higher life.*"* Neither industrialisation nor employment are ends in themselves, but only means to an end, which is a higher standard of life—not only economic but also cultural. We must guard ourselves against raising employment to the pedestal of the goal of all economic evolution. Logically, "employment must be productive and progressive....designed to preserve all the essential springs of material progress in the community, to leave to special efforts its rewards, to leave scope for change, invention, competition and initiative"† consistent with the maintenance of a coordinated pattern of all progress ratios—economic as well as non-economic.

It is thus that diversification, decentralisation and diffusion of the industrial structure of the country emerges as only a conscious, integral part of general economic stabilisation to maintain a full employment pattern of economic evolution. Industrialisation, can no longer be conceived as an independent section of national economic evolution but must be coordinated with the rhythm of economic progress not only regional, but also inter-regional and international, and it is needless to emphasise that only industrial evolution conceived as an integral part of general economic evolution of the country (in agriculture, industry and in

* Full Employment P. 20. Italics mine.

† Full Employment P. 29.

transport,) assisted by adjustment of the structure of economic relations to maintain a full employment pattern of economic administration that can raise the country to an international economic status where she can make definite contribution to the economic and cultural solidarity of the world.

CHAPTER IV

FULL EMPLOYMENT AND COORDINATION OF TRANSPORT.

“My great point is this,” declared Sir Arthur Cotton, three-quarters of a century ago, “that the railways have completely failed, they cannot carry at the price required, they cannot carry the quantities, and they cost the country three millions a year and increasing to support them.”* “Transport and industry”, writes Fay, “are interdependent : communications are established to handle traffic and by their establishment, new traffic is created. It is not possible to exploit the agricultural resources of new continents until adequate rail-roads have been built across them. The time between the building and the harvest is so serious in most new countries that the Government gives land or money to builders or operates them itself.”†

It is needless to urge afresh the close inter-dependence between the transport system and the general economic evolution of a country and the great impact that a well-conceived transport system can have on the economic transformation of a region, and the immense harm that a transport system uncoordinated with the general economic evolution of a country can do to its industrial progress and agricultural prosperity.

* Quoted in Romesh Dutt, *India in the Victorian Age*, pp. 360-61.

† From Adam Smith to the Present Day, p. 123.

Naturally an intricate and close economic relationship exists between the transport system and the regional economic matrix which is reflected in the volume and velocity of traffic that a transport system creates through transformation of the industrial and agricultural resources of the country; and the solidarity and stability of the transport system itself depends on the economic transformation that it can generate and sustain in the region concerned.

When Sir Arthur Cotton declared that the railways in India had completely failed, obviously he tried to emphasise what Professor Coatman tried to postulate fifty years later : "if agriculture and industry are the body and bones of a national organism, communications are its nerves,"* that a transport system cannot be conceived as having an existence independent of the regional or national economic matrix and if any transport system was conceived of independently of the main forces which determine the economic contours of a region or country, that it would not only stultify itself by failing to create adequate traffic which can ensure progressive stability to the transport system but also so distort economic evolution that neither industry, nor agriculture nor trade can be reconstructed so as to bring the region effectively into the international structure of economic relationships; for, as Marshall has put it : "the dominant economic fact of our own age is the development not of the manufacturing, but of the transport industries. It is these that are growing most rapidly in aggregate volume and

* India in 1925-26. P. 326.

individual power;”* and “every cheapening of the means of communications, every new facility for the free interchange of ideas between distant places alters the action of the forces which tend to localise industries,”† which will ultimately ensure a high degree of productivity not only in agriculture, but also in the industrial structure of the country.

The Indian transport system was no conscious part of the country's economic evolution; we have the testimony of Sir William Hunter : “*This was Lord Dalhousie's masterly idea—not only would he consolidate the newly annexed territories of India by his railways, and immensely increase the striking power of his military forces at every point of the Empire, but he would use a railway construction as a bait to bring British capital, and enterprise to India on a scale which had never entered the imagination of any previous Governor General.*”‡ Obviously the Indian transport system was more strategic than economic : Lord Lawrence, giving evidence before a Parliamentary Committee in 1873 declared : “I think it is notorious in India among almost every class that ever heard talk on the subject, that the railways have been extravagantly made; that they have cost a great deal more than they are worth, or ought to have cost.” And we learn that, “*while the Railways greatly increased the efficiency of the civil administration, the mobility of the troops, the trade of the country, and the movement of the population, they failed*

* Principles pp. 674–75.

† op. cit. P. 273.

‡ See Sir William Hunter, Dalhousie, Rulers of India series, for fuller information.

to make profits sufficient to meet the guaranteed interest,"* because adequate traffic was not forthcoming, because the transport system of the country was "not established to handle traffic," nor was "new traffic created" by its establishment, since the transport system of the country was more strategic than economic: it was certainly not for economic reasons that the experimental railway line started from Calcutta to Raniganj; it was indeed not to "exploit the agricultural resources" of the country that another experimental line was sanctioned between Bombay and Kalyan; and, plainly the Madras-Arkonam-line did not create enough traffic to sustain the financial weight of the experimental transport system, nor was it expected to perform this herculean feat. If India's transport system had been an integral part of the country's economic evolution, the Indian railways would not have been so costly, nor would there have been any need for the guarantee system of railway construction nor need "the enormously costly sections" though the Harnai and Bolan passes have been "ballasted with rupees" nor would there have been any need for the Royal Commission on Agriculture to record as late as 1929: "Large towns are few and great cities rare; most of the 500,000 villages have not yet been touched by metalled road or railway,"† because the Indian transport system was not established either to transform Indian agriculture or the industrial system of the country and naturally failed completely, to generate the requisite traffic

* Indian Year Book 1945-46 P. 656.

† Indian Year Book 1945-46 P. 686.

‡ Royal Commission on Agriculture. P. 5.

which would have created "large towns and cities", transformed the economic landscape of the country and prepared "India to take her place as an integral part of the present-day interdependent world-wide system of industry and trade,"* and would have brought the 500,000 villages within reach of a trans-continental pattern of inland transport—railways, roads and river transport system—which would have lifted the country out of the rigid framework of a subsistence economy and a fast sinking standard of life.

Within the severe limitations which its 'uneconomic evolution' imposed on its evolution process in the country, the transport system succeeded in creating 'distributing centres', instead of opening up the rural and urban resources of the country and bringing them effectively into an adequate pattern of international economic relations. The Indian railways failed to create "large towns" or "great cities" which could have given not only "specialisation of agriculture" through drastic transformation of the occupational structure of the country but also would have given the country a progressive and prosperous transport system; and instead, muddled up the economic evolution of the country in two ways: (a) by preparing "India to take her place as an integral part of the present day world-wide system of industry and trade,"† the Indian railway system broke up the old industrial centres of the country and flung the ever growing volume of population on the land resources of the country; thus even before the first railway

* Dr. Vera Anstey "Economic development of India, P. 153.

† Dr. Vera Anstey, Economic Development of India P. 153.

in India was laid between Bombay and Kalyan, we learn, "long before 1858, when the East India Company's rule ended, India had ceased to be a great manufacturing country—*agriculture had virtually become the one remaining source of the nation's subsistence*"* (b) secondly it sought to link administrative centres with each other and succeeded in resurrecting the old industrial centres of the country as "distributing centres" while it did nothing to create an adequate degree of 'urbanisation' in the country which alone would have created and sustained a progressive volume of traffic to sustain a growing and prosperous transport system. The truth was the Indian railways were caught in the inextensible meshes of the rigid structure of economic adjustments of a subsistence economy.

India was not a "new continent" whose "agricultural resources" awaited exploitation.† When the framework of the Indian railway system was laid, India had already lost the delicate structure of occupational balance and was fast sinking into the status of a country with a subsistence economy whose chief characteristics are described by the Royal Commission on Agriculture: "Under the prevailing system of tillage, the small holdings do not provide occupation for more than half the time of the cultivator. *The urban population is relatively small . . . and the demand for agricultural produce for final consumption in the town is thus small when compared with the whole volume of agricultural production* *Circumstances, therefore, have com-*

* R. C. Dutt *Economic History of India in the Victorian Age* P. viii. Italics mine.

† See Fay from Adam Smith to the Present day P. 173.

bined to maintain what is in large measure, a self-sufficient type of agriculture...The main characteristics of village life are still those of centuries anterior to British rule."* It should not at all surprise any body if the country has not been able to have adequate traffic to sustain a progressive transport system, for the simple reason the transport system of the country, divorced from the main current of economic evolution, was impotent to create adequate traffic through greater urbanisation of the subcontinent, which alone would have transformed agricultural production, balanced the structure of occupational pressure between agriculture and industry, enhanced the productivity of the national structure of production, generated regional "specialisation" of industry and agriculture and created adequate traffic in goods and men which an economically well-balanced pattern of industrial and agricultural production alone can create and sustain.

Instead, the Indian railway system created a muddle in economic evolution in the country and failed either to "commercialise" agriculture or 'specialise' regional production by creating adequate 'urbanisation' or by effective localisation of the industrial structure† with the result that "the farms and farmsteads which are so prominent a feature of the rural life of western countries are entirely absent" ‡and the spread of "cultivation of 'money' crops" so much emphasised by the Royal Commission on Agriculture, being almost negligible in

* Italics Mine, Report of the Royal Commission on Agriculture P. 5.

† Cf. Report, Royal Commission on Agriculture pp 10 et seq.

‡ Ibid p. 5

the country.* Thus between 1931-32 and 1940-41, oil seeds had spread from 16.1 million acres to 16.7 million acres and all non-food crops had spread from 43.7 million acres to 49.5 million acres and so far as industrial production is concerned, our study in the previous chapter has revealed the patent rigidities which the industrial system has accumulated in the course of its evolution from the dawn of the present century; while food crops showed no tendency towards any readjustment to a 'specialised' pattern of agricultural production; in 1931-32 for a total net sown area of 211.3 million acres, food crops occupied 200.7 million acres, and in 1940-41 for a total net sown area of 213.9 million acres, food crops occupied 198.4 million acres.† As regards our foreign trade, our exports had fallen from 1913 to 1936 in raw jute from £20.5 millions to £10.2 millions in 1935-36, in raw cotton from £27.3 millions to £25.3 millions; in oil-seeds from & £17.1 millions to £7.7 millions, in oil from £38 millions to £26 millions, in spices from £.6 million to £.4 million; in raw silk from £.16 million to £.03 million; in sugar from £.09 million to £.02 million, and while the share of United Kingdom in our export trade had risen in the period under study from 23.4 per cent to 31.5 per cent; the share of Germany, France, Belgium, Italy, Straits Settlement, China and U. S. S. R. had all fallen, while that of Japan had risen from 9.1 per cent to 13.4 per cent; of U. S. A., from 8.7 per cent to 10.1 per cent, of Ceylon from 3.6 per cent to 4.5 per cent; of Netherlands from

* Vide Ibid P. 10.

† See Indian Year Book 1945-46 pp. 223-324.

1·7 per cent to 2·3 per cent; of Australia from 1·6 per cent to 1·7 percent—these trend definitely pointing to a drastic contraction in the import-capacity of the country.* Thus in import trade, cotton manufacture had fallen from £44·1 millions to 15·8 millions, sugar from £9·9 millions to £1·4 millions, hardware from £2·6 millions to 2·4 millions; woollen manufactures from £2·5 millions to 1·7 millions, glass and glass-ware from £1·2 millions to £1 million, building and engineering materials from £·7 million to ·5 million; while machinery and mill-work increased from £5·1 millions to £10·2 millions; instruments and apparatus from £1·2 millions to £3·8 millions; motor car and cycles from £·1 million to £2·8 millions, dyeing and tanning substance from £·9 million to £2·5 million; drugs and medicines from £·7 million to £1·6 millions, rubber (raw and manufactured) from £·3 million to £1·5 millions; grains and pulses from £·18 million to £5 millions, thereby demonstrating, not necessarily a rising standard of life in the country, nor even a high degree of international economic relationships born of regional specialisation of production created and sustained by the transport system, but the impact of a growing volume of population on the country's foreign trade as reflected in the increase of imports in grains and pulses, and the herculean effort of the textile industry to manufacture high grade cloth to maintain their contracting markets at home and at Aden, East Africa, Iran, Zanzibar and the Straits Settlements, Ceylon and Anglo-Egyptian Sudan, and the impact of tariff protec-

* Vide Hand Book of Commercial Information P. 132 et seq.

tion in setting up an artificial industrial structure which is clearly reflected in the increase in imports of mill machinery, instruments and apparatus, motor cars and cycles, dyeing and tanning substances. Thus the value of export trade in cotton manufactures had fallen from £6·5 millions in 1913-14 to yarn to £3·35 million in 1935-36 while in piece-goods there was a very slight recovery from £1·4 millions in value to £1·5 millions *while in actual quantity, there was a fall from 89·22 million yards in 1913-14 to 71·2 million yards in 1935-36. The anxiety of the textile industry to at least conserve the home market needs no further proof.**

In the face of these indisputable data, it is very hard indeed to accept that "the railway system has stimulated foreign trade, specialisation of production and the beginning of the economic transition in India"† or that as the Royal Commission on Agriculture asserts, "The effect of improved communications in stimulating production and facilitating distribution has been great. . . Improved communications have stimulated that growing organisation of trade and commerce which has proved one of the most important features in increasing the resisting power of the people."‡

Nor did the railway system prosper. Till 1900, railways did not earn any profit; the rate profit grew slowly up to 1907-08 when they earned about £ 2 millions a year. In the next year, there was a relapse to loss and in 1908-09 the loss was £ 1.24 millions, in subsequent

* Vide Hand Book of Commercial Information pp. 123-124 and 177.

† Dr. Vera Anstey, Economic Development of India P. 153.

‡ Report p. 10.

years they earned a profit, and the intervention of the war of 1914-18 was a boon to the railway system, and by 1918-19 they had reached £ 10 millions of profit per year which ended with 1920-21 and in the year 1921-22 the loss exceeded £ 6 millions. These phenomenal fluctuations in railway finances so distorted the general budget of the Government that in 1924-25 the railway finances were separated from the general finances of the country under the recommendations of the Acworth Committee. Up to 1928-29 the railways showed surplus, the maximum profit being Rs. 6.38 crores in 1924-25. For the year 1929-30, about Rs. 2.08 crores were withdrawn from the Railway Reserve Fund and in 1930-31, the loss in the working of railways was Rs. 5.19 crores and the withdrawal from the reserve was Rs. 10.93 crores. In 1931-32, the loss was Rs. 9.20 crores, the heaviest loss being for the year 1932-33 at Rs. 10.23 crores and till 1935-36, railways were running at a loss, the amount of loss for that year being Rs. 4 crores. And in the year of the out-break of the present war of 1939-45, the railways were earning a small profit of Rs. 1.37 crores and the maximum profit the railway had earned since their inception being for the War year 1943-44 at Rs. 50.84 crores.*

It is a universally accepted axiom of railway economics that, as Professor Dewey puts it, "Rail traffic and revenues depend greatly upon the amount of national income and general economic activity. The correlation, for instance, between revenue ton-miles, revenue passenger miles, and national income, has been found to be

* Vide Indian Year Book 1945-46 P. 687.

close.”* Except in the period of abnormal economic activity of the two war years 1914-1918 and 1939-45, the history of Indian railway system has been one of unrelieved depression. Thus from 1936-37 to 1943-44 passenger-mileage increased from 18.27 billion miles to 32.48 billion miles, and goods ton-mileage increased from 21.43 billion miles to 28.36 billion miles ; and while, due to the rising cost of living and inflationary price fluctuations, the total working expenses increased Rs. 69. 9 crores in 1936-37 to 113.8 crores in 1943-44, percentage of working expenses to gross earnings showed a fall from 64.71 per cent to 57.28 per cent in 1943-44. If during normal years, the transport system of the country, particularly the railways, suffered from inadequate transport as a close scrutiny of railway finances clearly demonstrates during the acceleration of traffic under the stress of war, the railway system was clearly incompetent to stand the velocity of traffic which abnormal price fluctuations in the commodities market, and the wartime movements of men and goods, created as was clearly evidenced during the mid period of the war and particularly in the Bengal famine of 1943.

The routing of the railway system—the lay out of the transport which was dictated more by strategic and administrative considerations rather than by the economic consideration of bringing the country effectively into an integral pattern of international or even inter-imperial economic cooperation is plainly responsible not only for the grave instability of the railway system but also for the muddle in the general economic evolution.

* Vide Indian Year Book P. 700.

of the country which it has created. Thus the Bengal-Nagpur Railway (3412 miles in length) serves the eastern half of the C. P., Bihar & Orissa down to Vizagapatam in Madras Presidency, with Raipur, Nagpur, Jubbulpore and Amaroti (as important trade centres); Bombay, Baroda and Central Indian Railway (3692 miles in length) covers northern half of Bombay Presidency, Central India, and Southern Rajputana, the main urban centres on this railway being, Surat, Broach, Ahmedabad, Muttra and Delhi; Eastern Bengal Railway (1998 miles in length) covers Eastern Bengal, North-West Assam, Northern Gangetic plain in Bengal to the foot of the Himalayan Range : the urban centres being Naihati, Murshidabad, Patna, Goalando, Narainganj; the East Indian Railway (4395 miles) covers the southern end of the Punjab, United Provinces, Bihar and Western Bengal with Asansol, Dhanbad, Gaya, Patna, Mirzapur, Benares, Allahabad, Cawnpore, Agra, Fyzabad, Lucknow, Shaharanpur, Aligarh and Delhi; the Great Indian Peninsula Railway covers (3727 miles) central parts of Bombay Presidency, Hyderabad, Western half of the Central Provinces, Central India, lower parts of the U. P. and parts of Rajputana with Poona, Raichur, Ahmednagar, Nasik, Sholapur, Akola, Amraoti. Nagpur, Jubbulpore, Katni, Gwalior and Agra; the Madras and Southern Maharatta Railway covers (3230 miles) north-eastern and central parts of the Madras Presidency, a small part of the Hyderabad State, southern part of the Bombay Presidency and parts of Mysore State, with Bangalore, Guntakal, Poona, Guntur, Bezwada, Ellore, Cocanada as urban centres; the Nizam's Guaranteed State Railway (1348 miles) covers Hyderabad State with Bezwada, Singarani, Hyderabad as urban centres; the North Western

Railway (6949 miles), covers Sindh, the Punjab, North Western Frontier Province, Baluchistan with Hyderabad (Sind), Larkana, Shikarpur, Jacobabad, Quetta, Rawalpindi, Lahore, Amritsar and Lyallpur as important urban centres ; the South Indian Railway (2526 miles) covers whole of south India, with Trichnopoly, Madura, Salem, Coimbatore, Calicut and Tuticorin ; the Assam Bengal Railway (2113 miles) covers northern portions of the U. P. and of Bihar with Monghyr, Gorakhpur and Allahabad as important trade centres to give the important railway system in the country and the principal urban trade centres that they have connected.*

Though India possessed, in 1943-44 about forty-one thousand miles of railway, and though the mileage of railways per 100 sq. miles compared favourably with that of Australia and New-Zealand, Argentine, Canada and European Russia, the railways in India failed to create adequate traffic in goods and passengers, either to enhance the economic solidarity of the country or to bring the country into the international economic system to the lasting advantage of the four-hundred million people by rescuing the economic evolution of the sub-continent from the rigid frame-work of a subsistence economy through 'specialisation' of agrarian production or economic localisation of the industrial structure. Most of the urban centres which the railway system resurrected were either pilgrim centres administrative centres or old industrial centres whose economic stability had been shattered by the impact of mechanised competition from abroad, and in the new economic dispersation, these urban centres

* Vide Hand Book of Commercial Information P. 428 Seq.

assumed the role of 'distributing centres', the 'entrepôts' of a subsistence trade in raw materials from up country, and manufactured goods from abroad. Naturally, these centres were unable to create an 'economic transition' in the country which could have equalised employment pressures between the vast rural zones and the few urban areas of the subcontinent, nor were they able, with their anomalous position in the new economic dispensation, even to stabilise the scanty labour market of the three million urban toilers which the new industrialisation created; and in the strange economic conjuncture, which a transport system, uncoordinated with the maintenance of economic evolution of the country, created the abnormal resistances inherent in the apparatus of agrarian production to adjustments with price-fluctuations in primary markets became intensified, resulting in effective neutralisation of the forces making for either specialisation in agrarian production or "economic" localisation of the industrial units.

Even during normal processes of primary production, agrarian economics is dominated by, what Lamar-tine Yates calls, "supply's irresponsiveness" to price-fluctuations, and as Sir William Beveridge observes: "In many cases, indeed, to describe the trouble as irresponsiveness is understatement; the real trouble is the wrong responsiveness, multiplying the original maladjustment instead of correcting it",* which is further multiplied in the mechanism of adjustment between price-fluctuations and the structure of production in a subsistence agrarian economy like that of India,

* Full Employment, P. 232,

because of the increased enormity of time lag complicated by the erratic time preference ratios of a subsistence type of economic administration. The Indian railway system, by creating abnormal velocity of goods particularly in the regions which it touched, standardised price-formations and thus neutralised management of regional price-formations to bring the necessary shifts and changes in the structure of primary production, which gradually deteriorated into subsistence production through the impact of world price-instabilities in primary products—transmitted through the transport system,—and the “uncertain” factor of international movement of primary goods in response to price-fluctuations on the one hand, and through the inability of a wrongly located industrial system to sustain the structure of wage-formations which could have equalised employment-pressures between the rural and urban occupational structures, through an adequate degree of rural exodus on the other.

Thus instead of ensuring the requisite pattern of regional price-fluctuations which could have generated “specialisation” of agrarian production through adjustment of inter-regional velocity of circulation of goods, to bring about the requisite degree of specialisation of agrarian production, the railways by standardisation of price formations throughout the country, created an intensified pressure of population on the agrarian resources and encased the rural economic evolution of the subcontinent within the rigid framework of a subsistence type of economic administration. It is thus, “India is preeminently the land of the small holder.”* “Large-scale farming, even in the altered

* Report of the Royal Commission on Agriculture P. 10.

conditions of today, though open to many, is practised by few,"* because the one factor which could have exerted pressure in transforming Indian agriculture to 'specialisation' and large-scale farming; i. e. drastic price-adjustments to generate economic forces of regional evolution calculated to bring about transition from small scale cultivation to large scale farming, was neutralised by the railway system which reduced the intensity of regional price-fluctuations in primary products and wiped out the margin between a rigid structure of agrarian costs in the country and a price-system whose dynamics was determined by international demand for, and supply of, primary products; and which, at the same time, sterilised the industrial system by reducing its labour absorption capacity by generating similar trends in industrial price-formations.

If changes and shifts in the structure of agrarian production, brought about by the process of adjustment of primary production to price-changes through adequate regulation of the velocity of circulation of primary goods sustained and directed by a well-conceived transport system, had created structural unemployment in agriculture by exerting enormous pressure on the agrarian cost-structure in its attempt to seek adjustment with the dynamics of primary prices, and if, at the same time, the transport system had created an 'eminently' elastic industrial system in the country by adequate 'location' of the industrial structure and severe management of industrial prices through neutralisation of movements of industrial goods, it would have been possible for an old country

* Ibid P. 12.

like India with an enormous degree of population-pressures on the land resources to sustain "large-scale farming" and specialisation in primary production. In other words, it would have involved an 'economic' feat on the part of the Indian transport system, which no centralised transport system in the world today is capable of performing—that of regulation of velocity and volume of traffic to sustain an integrated structure of price-formations to bring about equalisation of employment pressures between agriculture and industry. In this mad scramble for economic adjustment, the traffic system would not only create a deadly economic muddle in the general economic evolution of the country, but would effectively drain its own vital channels of existence—viz., the volume and velocity of traffic—so indispensable to maintain the economic efficiency of a transport system in a competitive framework of economic administration. A study of the history of 'groundnuts', 'sugar-cane' and 'oil-seeds', as the leading 'money crops' in the country, and of the paper, cotton textile and sugar industries and the financial position of railways in the pre-1939 years brings out the full import of this analysis.

"Our rail-roads, sadly need modernisation of equipment and integration of organisation. The country's entire rail-road system probably ought to be organised into a few railroads companies, each covering a special region," wrote Professor Hansen about the American Railways in 1943.* India happens to be economically an older country than the United State of America, with

* Post-war Economy, in Post-war Economic Problems, Edited by S. E. Harris, 1943, P. 25.

certain patent economic rigidities which are absent in a comparatively new country with an undoubtedly more pliant economic structure, where the laying out of a transport system would present less difficulties. It is not an easy feat for a transport system to generate and sustain an economic evolution in an old country with a settled density of population, with a rigid structure of occupational balance and a set framework of economic adjustments, through regulation of price-formaions by management of the volume and velocity of traffic, since, it is almost common knowledge in transport economics, that volume and velocity of traffic are determined by the range of relative price-fluctuations, in which freight happens to be just one of the factors, whose significance depends upon the price-differences between regions which are connected by the tranport system. Logically, then, the role that a transport system can play in stimulating structural changes in the national mechanism of production—with reciprocal changes in the nationl structure of occupational balances, through regulation of the volume and velocity of traffic is of secondary importance; since goods will flow from regions of lower price to regions of higher price, even if railway freights are adjusted to wipe out the inter-regional price-differences, through alternate routes of transport, in a competitive system, unless there is an adequate degree of freight-coordination among railways, road, water and air transport systems and the entire system is subjected to an intensified programme of economic control which is possible only by elimination of competition—a reformation which would change the very assumption of the thesis we are arguing. This is not to ignore the

tremendous impact that a transport system exerts on the economic evolution of a country, (a) by forcing the regional economic system into an intricate pattern of interregional and international economic relations which would necessitate integration of regional productivity in agriculture and industry with international productivity and (b) by transmitting cyclical fluctuations in industry, agriculture, trade and finance not only from one country to another, but also within a country itself, from one region to another region through international and interregional movements of goods and services.

The above analysis clearly demonstrates that unless the transport system of the country is a conscious, integral part of the general economic evolution, it would, in the ultimate analysis, distort forces of economic adjustment—which would effectively sterilise national productivity and reduce the capacity of the structure of production—agrarian as well as industrial—to sustain an integrated pattern of employment-balances. The evolution of the transport system must be properly fitted into the main trends of general economic evolution of a region; it should not be allowed to determine the contours of economic evolution and to create enormous rigidities in the mechanism of economic adjustment between agrarian and industrial production by affecting productivity-ratios between agriculture and industry and contaminating the employment-absorption capacity of the national structure of production by generating inter-regional and international movements of goods and services in order to standardise the tempo of price-formations. It needs no reiteration that the volume and velocity of traffic

determines the economic contours of the transport system and that the volume and velocity of traffic are conditioned by the productivity of the national structure of production. Where the transport system is constructed consistent with the volume and velocity of traffic, the transport system emerges as a cognate unit of the regional or national economic organism; but wherever the transport system becomes a creator of economic muddle, it contaminates the dynamics of price-formations which cannot be set right by traditional instruments of economic readjustment. It is well that we realised that transport may be a good servant, but it can definitely be a vicious master of economic evolution.

It is needless to stress that the role of transport in a full employment pattern of economic evolution for India would have to be entirely different from what it is today; and in fitting the transport system to a full employment scheme of economic administration, certain considerations will assume enormous import : (a) general economic stabilisation programmes will undoubtedly affect the volume, velocity and direction of traffic commensurate with the flow of producer and consumer goods to maintain adequate balance in economic evolution in the country to maintain the stabilisation programmes; (b) regional development programmes like river-valley and river-basin development projects, hydro-electric projects and land reclamation programmes will necessitate heavy movements of capital goods and services which the transport system of the country will have to bear; (c) decentralisation and dispersion of light consumers goods industries with a view to reach a high degree of regional economic self

sufficiency will undoubtedly affect the volume and velocity of traffic which will not be able to sustain heavy type of transport and will mean development of light transport systems, particularly automobile transport, as against the construction of new railroads in the country, along with an integrated development of waterways incidental to river valley and river basin projects; (d) development of high nutrition agriculture and maintenance of inter-regional economic relations in 'special regional' agrarian and industrial products would set up traffic in light valuable goods rather than in heavy raw materials and would necessitate requisite adjustments in the transport system in which the railway system would have to undergo drastic transformation to suit the new contours of traffic; (e) regulated mobility of labour to maintain balance in the structure of employment pressures in agriculture and industry would necessitate regional decentralisation and intensification of road and water-transport rather than expansion and development of the existing railway system; (f) the changing content and trend of foreign trade generated by price-stabilisation programmes to maintain an integral structure of full employment productivity in agricultural and industry, would obviously, affect the velocity and volume of transcontinental transport and the railway system would have to be reconstructed to withstand this process of drastic readjustment of transport-ratios.

General economic stabilisation programme to create and sustain full employment patterns of economic adjustment would undoubtedly necessitate adequate administration of agrarian and industrial price forma-

tion, in which transport has to play a considerable part, since price formations can easily be distorted by acceleration of traffic between zones of price-fluctuation through the transport system. No general economic stabilisation programme can be maintained without three factors of economic adjustment (i) regulated inter-regional mobility of goods; (ii) regulated productivity of agrarian and industrial structures of production, (iii) regulated inter-regional and interoccupational mobility of labour and (iv) regulated consumption of producers and consumers goods with a view to stabilise savings investment ratios and, in such a programme of economic stabilisation, drastic regulation of the transport system to prevent transmission of economic instabilities—inter-regional as well as international—assumes special significance. Thus readjustment of regional programmes of production—agrarian as well as industrial—to sustain an integrated structure of occupational balance would reduce the volume and velocity of traffic and would stimulate intra-regional velocity of traffic which would imply greater decentralisation and intraregional intensification of transport-routes, particularly of the light type, and because of the incessant transformations in the programme of regional production to sustain an even balance of inter-occupational employment pressures, a transport system whose routing can be kept incessantly adjusted to the volume, velocity and direction of traffic would become imperative. Naturally such a programme of transport reconstruction would imply intensification and integrated development of automobile transport within each region rather than the development of the railroad transport system. The vast extent of hydro-

electric power which river basin and river valley development projects would release could be utilised for short distance development of trolley—bus service and intra-regional and inter-regional development of electric transportation, these matters being settled in intensive survey of regional traffic problems and availability of power-resources.

Regional development programmes like river-valley and riverbasin projects would undoubtedly precipitate short term traffic problems in heavy constructional goods and might necessitate the construction of temporary feeder lines connecting the construction-sites with the main railway system of the country and wherever possible development of road traffic should be adequately implemented. These projects will also involve heavy movements of labour and generate problems of 'urbanisation' which will create certain peculiar traffic problems of a transient nature.

Decentralisation and dispersion of light consumers goods industries and productional programmes to maintain a high degree of regional economic self-sufficiency would change the very content and velocity of intra-regional and inter-regional traffic which would render a heavy transport system 'uneconomic,' and would necessitate the establishment of a flexible and light transport system with facilities for interchangeability of traffic routing to maintain adequate adjustment between the transport system and the flow of traffic. These facilities would be more readily available in automobile transport and would involve heavy road construction programmes not only intra-regional but also inter-regional; supplemented, wherever possible

by water-ways for the transportation of comparatively 'heavier' type of goods.

We have observed elsewhere that India must maintain 'high-nutrition agriculture', since there are few chances of large-scale farming emerging in an old country with a subsistence type of agrarian production, at least for a considerable time to come, till adequate land reclamation projects release a portion of the land resources of the country for further agrarian exploitation till the reconstruction of the occupational structure of the country to equalise employment pressures between agrarian and industrial regions of the country is adequately implemented. High nutrition agriculture together with a certain degree of 'specialisation of agrarian production with an adequate industrial structure to maintain the requisite degree of inter-regional and international economic relations will exert enormous incidence on the volume and velocity of traffic, which may be reduced in certain directions and leave its impact on the evolution of the regional transport system, which cannot, certainly, be of the heavy type like the railways.

Similarly regulated mobility of labour to maintain full employment patterns of regional and national occupational structure and the changing contours of foreign trade to sustain an integrated pattern of international economic relations to implement full employment productivity of the national economic system would undoubtedly transform the composition of traffic over the rail-roads of the country and render readjustment of the national system of transportation to suit the traffic requirements of a full employment pattern of national production inevitable.

Naturally the road-system existing in the country today needs to be increased and improved. We have today 85,000 miles of metalled roads of which 5000 miles are trunk roads stretching from the Khyber pass to Calcutta, from Calcutta to Madras, from Madras to Bombay and from Bombay to Delhi, none of these roads being all-weather roads—particularly the trunk road from Madras to Calcutta which is not bridged throughout its length. Naturally these roads have bequeathed the legacy of strategic transport like the rail-roads of the country. As regards subsidiary roads, the best served part of the country is South India and the worst-served regions being Rajputana, Sindh, specific regions of the Punjab and Bihar and Bengal “because of the unbridged and unbridgeable waterways which dissect them.”* Besides these roads there are mudways and cart-tracks which cover 260,000 miles of the country.

Even with these roads, the revenue from motor transport to the Central and Provincial Governments in 1938-39 was Rs. 960 lakhs which represented an excess of Rs. 358 lakhs over the total road expenditure. †Today India possesses 238,001 miles of roads which can be used for automobile transport and the remaining 122,736 miles being tractable during dry seasons. According to the road-development plan which emerged from the Chief Engineers Conference at Nagpur in 1943, we were to have a total road mileage of 400,000 costing Rs. 300 crores according to pre-war value or Rs. 450 crores according to post-war costs

* Indian Year Book 1945-46 P. 36.

† Indian Year Book 1945-46 P. 37.

of materials for road construction. Roads were to be classified into National Highways, Provincial Roads, District Roads, and Village Roads and a new Road Transport Board was to *be instituted to coordinate the administration of highways and byways of the country by the Central Government, the Provincial Governments and local Boards, and we learn : "Motor transport will also be developed with the object of getting it into the heart of the village and country-side." †

The future evolution of transport with a view to implement a programme of high degree regional economic self-sufficiency involves the development and intensification of automobile transport as the bulk of regional transport would consist of light consumers goods between various localities in each region. An integrated pattern of transport development to implement full employment standards of intraregional and inter-regional traffic would necessitate a transport routing which would be fundamentally different from the schemes of railway and road developments which are adumbrated in the country today; with the existing transport system as the main framework to which the transport map of the country is to be adjusted. The railway system of today has accumulated certain 'uneconomic' rigidities so patent in a strategic transport and has been responsible for the economic muddle in the country today. No transport system which is built with the existing transport system as the pivot

* P. S. Lokanathan—India's Post War Reconstruction and its International Aspects, Indian Council of World Affairs, January, 1946, Oxford University Press p 60.

can escape the tentacles of anachronistic evolution, and if we are to avoid the 'mistakes' that have been perpetrated in the evolution of the transport system of the country in the past, we must devise a routing for the new transport which would assist the reconstruction of regional and national economic life to sustain a full employment pattern of economic administration.

Necessarily, then, the role of transport in the new-economic dispensation would be that of protecting regional programmes of economic stabilisation from being contaminated by any abnormal economic fluctuations, which might easily destabilise the structure of economic adjustments which are essential to effectively implement full employment patterns of regional productivity, and income structures through adequate regulation of traffic—intra-regional as well as interregional. Thus the transport system of the country will have to subject itself to certain processes of adjustments : (a) the transport system will have to be decentralised and regionalised with the minimum of contact with the trans-continental transport system which would have to concern itself only with the traffic essential to maintain inter-regional and international economic relationships; (b) the transport system must be elevated to the pedestal of a public utility service and outlay on transport should be in the nature of 'communal outlay' instead of the existing 'business type' of transport administration, since regulated volume and velocity of traffic will not enable the transport system to sustain itself on the 'freight' structure which it may set up; (c) effective coordination among different transport systems like railways, auto-

mobile and water transport to eliminate any kind of competition among them; (d) nationalisation of the transport systems to reduce any 'competition' either in routing or in 'freight' and to maintain an integrated pattern of investment structure to implement full employment schemes of economic stabilisation—regional as well as national; (e) regionalised regulation of traffic—goods as well as labour—to maintain the requisite pattern of price-formations in agriculture and industry; (f) adequate readjustment of 'expense ratios' in transport services to the exigencies of the reconstituted volume and velocity of traffic—to give some of the most important processes of readjustment which are inevitable in any scheme which attempts to coordinate transport with regional programmes of full employment.

There can be little doubt that, under full employment patterns of economic administration, transport assumes a special significance and with decentralisation, regionalisation and intensification of the transport system, the transport services will experience an expansion commensurate with the expansion of the transport system of the country. In 1943-44 the railway system of the country alone absorbed 889,056 workers while detailed statistical information regarding transport service like automobile, tramway, waterway and other road transport systems are not available at present, and even in the railway services recent years have witnessed growth of disputes regarding wages and dearness allowances, and compared with the operating ratio of railways in other countries, operating ratio of the railways in our country can be said to be 'heavy' in view of the definitely low level of the general

standards of living obtaining in our country. The accompanying table brings out the point clearly.

Country		Year	Railway operating Ratio
U. S. A.	..	1930	74 per cent
France	..	1925	84.15 per cent
England	..	1928	79.40 per cent
South Africa	..	1928-29	77.80 per cent
Argentina	..	1927	71.05 per cent
Canada	..	1929	81.21 per cent
India	..	1925-26	62.69 per cent
		1927-28	61.39 per cent
		1929-30	65.02 per cent
		1931-32	71.08 per cent
		1943-44	57.9 per cent*

* (Source : Indian Year Book 1945-46 P. 695.)

The immense development of short range transport systems would not only necessitate wage managements in transport service but also efficient decentralised patterns of urban evolution with cognate problems in housing, sanitation, water supply, power development and other connected amenities of urban living. The development of inter-regional transport system—particularly automobile transport—would have to be sustained by diffusion of automobile transport units and where hydro-electric power for automobile and railroad transport is not available, supply of power will assume special import and would affect our foreign trade equations, since the existing oil resources of the country would not be adequate to provide all the power that the vastly extended automobile transport system would consume.

Similarly the development of water-transport as subsidiary to railway and road transport will have to be adequately implemented, and the contours of traffic

which would undoubtedly be regulated and conditioned by regional programmes of economic stabilisation would settle the magnitude of water-transport that will have to be reached under a full-employment pattern of intra-regional and inter-regional movements of goods and services, and the extent of water ways that would be developed by the river basin and river valley development projects in the country.

No consideration of post war traffic can be complete without reference to the development of aerial transport in the days ahead. We are already witnessing the rapid strides in aerial transport in the country in the last two years, though the development of aerial transport received a slight set back during the war years, 1939-45. The first air service in India was started between Bombay and Karachi as a Government venture in 1920 and the recent war of 1939-45 has provided ample opportunities for future development of aerial transport; and the existing aerial transport between Madras and Peshawar via Lahore, Delhi, Nagpur and Hyderabad and from Bombay to Calcutta, Bangalore and Delhi, from Madras to Calcutta and from Delhi to Calcutta will have to be vastly improved and diversified for purposes of passenger transport and transport of high quality special goods and the carrying of mails from one part of the country to another, leaving heavy mails and goods for the railway system of the country ; and in this connection the Hindustan Aircrafts at Bangalore can play a leading part in the assemblage of aeroplanes for use in the country.

With the progress of transport service in the country in the post war days, and the enormous development of automobile transport, the development

of transport industries, apart from the dispersion of automobile engineering services assumes special significance. There are two automobile industrial units already in existence and the Government have schemes for providing facilities for the manufacture of locomotives in the country. It is needless to urge the enormous economic complications in starting and maintaining heavy engineering industries in our country in view of the serious incidence these industries will have on the general economic structure and the difficulties they will experience in maintaining their economic stability in national economic evolution, as India would find it more 'economical' to maintain international economic relations in regard to her 'capital' and 'transport' equipment for at least some considerable time to come in view of the enormous rigidities in the "scale" of heavy engineering industries and the difficulties of maintaining the "scale" in heavy engineering industries flexible to the dynamics of technical progress in methods of mass production of automobiles and aeroplanes. Those who are conscious of the enormous difficulties of the automobile industry of the United States of America and the tendency towards high degree combination in the industry would undoubtedly hesitate before advocating the establishment of automobile and aeronautical engineering industries in the country, in view of the enormous magnitude of capital that the industries would consume and the functional and structural difficulties they would experience in the absence of an ever-widening market for automobiles and aeroplanes.

It is obvious that a full employment programme of general economic stabilisation creates new transport

problems, the most important problem being that of maintaining adequate balance between the development of a progressive transport system and the volume and velocity of traffic, which an integrated programme of regional economic stabilisation can create. It is need- less to urge that regional economic stabilisation programmes would create 'erratic' fluctuations in the volume, velocity, content and direction of traffic which no centralised type of transport can handle without damaging its structural as well as functional capacity in the national economic system. Economic stabilisation programmes to maintain full employment patterns of regional productivity in agricultural and industrial structure of production necessitate the emergence of a highly flexible transport-system which can absorb the abnormal trends in transport which price-stabilisation programmes as integral parts of full employment economic evolution, create and sustain.

It should be obvious, then, that the railway system is unsuited to high degree traffic—fluctuations of a full employment programme of economic stabilisation to maintain an integrated pattern of relative price-formations calculated to create necessary changes and shifts in the regional structure of production with a view to implement an equi-balanced structure of occupations in the region concerned. Plainly the future of transport does not belong to railways ; India must have an intricate network of roads to sustain the enormous development of automobile transport to cover short distance traffic, while the railways would be relegated to the secondary position of long-range heavy traffic which will not emerge till the economic evolution of the country has progressed far on the road to full employ-

ment and till India has reached a stage of economic evolution where she can maintain an adequate structure of foreign trade in heavy goods.

Thus, in any adequate programme of full employment, the transport system must emerge as an integral part of general economic stabilisation programmes ; the transport system cannot afford to lead an economic existence independent of the regional and national economic matrix, without seriously damaging the general economic evolution of the regions which it serves, and ultimately strangling the vital channels of its own existence through reduced volume and velocity of traffic. Next to the money market, the transport system happens to be a fundamental vehicle for transmitting price-fluctuations and economic instabilities, not only among nations, but also between two regions in the same country by creating artificial movements of goods and services, and no programme of economic stabilisation can be adequately implemented without efficient control of the transport system and drastic regulation of interregional and inter-national movements of goods and services.

Thus the future of transport in our country must be very carefully planned, if we are to avoid the economic muddle that the transport system has created today. The future transport system must be a delicate structure of balances between adequacy of transport facilities and adequacy of traffic ; and the balance between the two, particularly, in a full employment pattern of regional economic evolution is not easy to attain. Full employment programmes in our country must, in the ultimate analysis, reduce the volume and velocity of traffic ; while adequate implementation of full employment programmes to maintain high degree regio-

nal economic self-sufficiency would involve extension and intensification of regional transport systems and their adequate coordination with the national transport framework in order to maintain an efficient structure of international economic relations without which the drive for higher standards of living for a country like India would soon be sterilised by the forces of economic adjustment of a world which is fully awake to the urgency of global implementation of full employment programmes of economic reconstruction.

CHAPTER V.

FULL EMPLOYMENT AND THE MONEY MARKET.

“A full employment policy worthy of the name”, writes Sir William Beveridge, “cannot limit itself to curbing the boom slightly and slightly mitigating depression. Its aim is the abolition of booms and slumps and the maintenance of a level of employment hitherto not even attained during booms. It is not a policy to be applied intermittently, but continuously. It is a policy of consciously and continuously steering the economy on a steady course of progress.”* “Full employment,” postulates Dr. Hart, “is best regarded as an aspect of a larger complex called ‘general economic stabilisation’ involving avoidance of serious price level fluctuations as well as of unemployment.”†

It is needless to urge the close relationship between price-fluctuations and employment-rates, through distortions of the cost structure in industry as well as in agriculture; and in generating price-fluctuations, the money-market of the country plays a specially significant part as the pivot of all economic activity in an exchange economy. Thus economic activity, in an exchange economy with individualist disposal of factors of production under profit-stimulus, is inextricably interwoven into the savings-investment ratio which is determined (a) by the supply of the medium of exchange (b) by the pace of technical progress and its

* Full Employment P. 184.

† Albert G. Hart, Facts Issues and Policies, American Economic Review. May, 1946. P. 280.

impact on the productivity of agriculture and industry through distortion of the savings-investment ratios which will undoubtedly exert terrific pressure on the composition of industrial and agricultural cost structures through the pricing mechanism of the community; (c) by the impact of investment-structure on the rate of savings through the medium of speculation on the stock-exchange; (d) by the 'liquidity preference' ratio of the people which, given a definite structure of incomes, determines the rate of savings by determining the structure of 'consumers outlay' (e) the responsiveness of the banking-structure to the pace of investment through reciprocal shifts and changes in the aggregate volume and velocity of bank deposits.

Naturally, because of these close interconnections between the money-market and the intensity of "price-level fluctuations" through the medium of distortion of savings-investment ratios, the banking system not only gets involved during periods of abnormal disparity generated by abnormal fluctuations in the structure of relative price formations, between the rate of savings and the pace of investments but also accelerates the tendency towards disparity between savings and investment since the banking system has an appreciable degree of "built in flexibility" in its very structure, in regard to the volume of purchasing power which it can release into the general economic system, though it cannot control the velocity of circulation of the volume of purchasing power once it has flown across its counter, since the velocity of circulation of purchasing power depends upon the sectional structure of liquidity-preference ratios in the community, which ultimately determines the range of fluctuations in relative price formations, which

cause structural changes in the productive apparatus with reciprocal shifts and changes in employment volumes and unemployment rates and the consumption propensities of the population.

It is thus then, "the subject of money continues to be, in the minds of most people, a paradox the development of deposit banking has enhanced the mysticism surrounding money ... Bankers, by supplying a medium of exchange (demand deposits), based formerly on a small metallic reserve but now on a credit obligation... .. appear to have performed a mysterious sleight of hand"* As long as 'price policy' happens to be "an integral part of a full employment policy"† and as long as fluctuations in bank deposits create distortions in the structure of relative prices, it is difficult to resist the conclusion that no adequate plan for full employment can be successfully implemented without adequate regulation of the volume of money, of which bank-deposits form an important part in any modern community in which the development of banking has been appreciable enough to affect the aggregate volume of purchasing power at any given time, through changes in the velocity of creation of bank-deposits in the course of ordinary banking business-like overdrafts, advances-clear and covered by collateral securities, and discounting of bills, inland as well as foreign.

It is obvious, to any student of banking, that the capacity of banks to create deposits is limited by two factors (a) by the flow of savings into the money market (b) by the velocity of circulation of bank

* Hansen : America's Role in the world Economy, 1945, P. 144.

† Sir William Beveridge, op. cit. P. 202.

deposits which is governed by the structure of liquidity preference ratios of the public which is, in its turn, determined by (i) the rate of investment, (i i) the range of fluctuations in the structure of relative prices and (i i i) the outlook of industry and trade, and (iv) activities of speculators in the commodities, as well as in the stock markets. Any disturbance to the state of balance of these factors which determine the volume and velocity of circulation of money will create reciprocal changes in the structure of relative prices which, with given requisite span of time-lag necessary to bring about sympathetic variations in the structure of production, distort the structure of employment, in the industries affected by these inter-connected shifts and changes.

Thus monetary influences on the trend and intensity of cyclical fluctuations in industry and trade have to manifest themselves by creating sympathetic distortions in the structure of relative prices which create reciprocal readjustments in the structure of production and agriculture, and, with a given pace of technical progress to keep agrarian and industrial productivity adequately balanced with the dynamics of price-formations, generate reciprocal changes in the rates and volumes of employment. It is thus that money, because of the intricate processes of economic adjustment inherent in any complicated structure of economic relations which are incessantly affected by the degree of time-lags necessary to reach a state of balance to the new distortions manifesting in economic life, becomes a mysterious power in the creation and propagation of economic disharmonies, which are familiar to us as "trade cycles"—cyclical fluctuations in economic activity with reciprocal changes and shifts

in the structure of production, the composition of relative prices, the volume and velocity of circulation of money, the structure of incomes,—industrial as well as agricultural, ‘real’ as well as ‘money’; and finally the volume and rate of employment.

“The volume of unemployment”, writes Sir William Beveridge, “at any time in any community depends upon factors of three kinds: on the factors determining the quantity of the effective demand for the products of industry, on the factors determining the direction of demand, and on the factors determining the manner in which industry responds to the demand.”* Of the three factors determining the rate of employment, enumerated above, ‘effective demand for the products of industry’ is determined by all the factors which go to shape the demand curve for the products of industry, at any given time, like the structure of incomes, the formations of relative prices and the degree of fluctuations in relative prices, liquidity preference and time preference ratios, dynamics of the standard of living—interspatial as well as intertemporal, and the trend of investment not only in industry but also in agriculture and mining, transport and communications—in fact on the dynamics of the entire circle of exchange whose contours are determined not only by the stream of goods and services entering its ambit, but also by the aggregate volume of purchasing power against which it is pitted. And the degree of response of the structure of production to price formations which are governed by the intensity of demand at any time, is governed by the anticipated duration of the pitch of price-formations, or, business

* Full Employment, P. 24.

anticipations of the state of markets for industrial products, in the determination of which speculation plays an important role.

Obviously the volume and rate of employment at any given time is conditioned by factors which keep up stability in the trend of prices long enough to cover the time-lag between the new set of price formations and the necessary adjustments in the structure of industry to strike a balance between the flood of goods and-services and the intensity of demand for industrial products—if we should confine our attention to the factors determining the rate and volume of industrial employment alone, and the range of adjustments and the duration of stabilisation process will have to be wider if any country aims at full employment not only of its man-power but also of all its material resources, involving effective control of all factors which tend to create disequilibrium between the intensity of demand for goods and services and the shifts and changes in the structure of production, and implies an economic system in which the minimum of variations are allowed to manifest themselves on the structure of relative prices either through disparity in the volume and velocity of circulation of ‘ money ’ including bank-deposits or through artificial stimulation of demand with reciprocal distortions of the demand curve and of the balances in the structure of relative prices. This analysis postulates that full employment cannot be achieved without drastic management of price formations to direct the flow of productive resources in order to maintain an integrated pattern of saving-investment balance to sustain full employment, with reciprocal adjustments in the structure of production, and would imply drastic regulation not only of the money market but also of technical progress

which distorts the flow of investment and creates huge blocs of structural unemployment in the labour population and leaves a good portion of the factor-market 'unemployed' due to consideration of productivity and relative flexibility of the cost-structure. The economic system would then be piloted into a situation in which, as Sweezy puts it : " The problem of reducing fluctuations is obviously of secondary importance if throughout all of the variations in production and employment a substantial part of the community's resources remain unused."*

"Full employment" of the "community's resources" involves a situation in which full productivity of the structure of production – primary as well industrial – cannot be maintained, since technical progress incessantly creates fluctuations in the rate and volume of employment by effecting structural changes in industry towards the attainment of a high degree of productivity in all sectors of production which will reduce the labour absorption capacity of the production unit besides creating complications through economic stabilisation programmes which would reduce the velocity of investment and contaminate the structure of foreign trade equations, by implementing programmes of economic adjustment which would sustain full economic self-sufficiency without which absolute full employment of the community's entire resources cannot be attained.

Obviously full employment does not pretend to postulate for such a utopian pattern of economic administration. As Sir William Beveridge observes : "Full employment does not mean literally no unemployment"

* Vide Alan Sweezy : *Secular Stagnation ?* in *Post war Economic Problems*, 1943. P. 67.

Full employment means that unemployment is reduced to short intervals of standing by - it means that the normal lag between losing one job and finding another will be very short."* Even a substantial rise in the employment rate involves adequate control of all disturbances that create distortions in the structural pattern of industry whether such disturbances arise from the disparity between the flow of goods and services in the market and the intensity of demand for them or from the side of fluctuations in the aggregate volume of purchasing power created by the money market in order to absorb the velocity of investment with reciprocal distortions in the structure of relative prices.

All this implies an adequate degree of economic stabilisation of all progress ratios to raise the employment-absorption capacity of the productive system which involves certain delicate adjustment in the working of the general economic system of the country : it means (a) maintenance of a definite structure of incomes in the community (b) 'socialisation of demand' involving circumscription of consumption with certain delicate balances between private consumption outlay and public consumption outlay to maintain 'full employment' integrity of the national structure of production; (c) regulation and control of all private and public investment which may create disturbances to the delicate balancing of the relationship between different lines of production to maintain an integrated structure of "social priorities", (d) maintenance of an adequate capital structure with necessary changes and shifts in investment ratio to keep up a definite proportion between

* Full Employment P. 18.

producers goods and consumers goods of all description, (e) effective control of the money market to prevent abnormal distortions in the structure of relative prices and creating certain 'gaps' between 'money' structure and 'real' structure of incomes with sympathetic dislocations in liquidity preference ratios and the time structures of consumption, to maintain the requisite stability of production and employment.

Though full employment may not postulate for an active programme of "nationalisation of the joint stock-banks,"* it does make it imperative that the deposit creation capacity of joint stock banks and the forces making for aggregate changes in the volume of purchasing power should be subjected to a high degree of regulation consistent with the implementation of the pattern of price stabilisation as an integral part of general economic stabilisation programme. Thus the banking system will have to subserve the imperious stabilisation needs of full employment economic evolution in so far as it concerns the maintenance of savings-investment balances to sustain a structure of national production adequate to maintain a definitely high level of production and progressive employment ratio in the in the national economic system.

It is patent that a comprehensive stabilisation programme involving adequate regulation of consumption through 'socialisation of demand' and regulation of production with a set spiral of 'social priorities' with adequate adjustment between private investment and public investment to maintain an adequate structure of sectional balances in the dynamics of total outlay to maintain a high degree of employment volumes and

* Cf. Sir William Beveridge, *Full Employment*. P. 178.

rates would involve a sufficient degree of control over 'banking operations' through regulation of 'liquidity preference rations' readjusted to the dynamics of "socialisation" process of marketing and production of agrarian as well as industrial products and render 'nationalisation' of the banking structure a mere problem of ideological interest. In attempting to reach a high degree of "full employment" without serious contamination of the productivity of all branches of the national structure of production, Sir William Beveridge adumbrates four measures of economic stabilisation : (a) maintenance of investment through adequate expansion of private and social consumption, (b) stabilisation of production and marketing of primary commodities; (c) stabilisation of loan and tax policy in consonance with the programme for the maintenance of private investment through a National Investment Board and (d) Stabilisation of investment through expansion of 'socialised' or public sector of business.*

Maintenance of adequate stability of prices and production to sustain "full employment" is unattainable without adequate elimination of "fluctuations" inherent in an exchange economy: these fluctuations may arise either from changes in the aggregate volume of purchasing power released on the community or through transmission of fluctuations in prices and production abroad through the mechanism of foreign trade which create enormous disturbances not only on the functioning of the national money market but also directly in the structure of relative prices and production

* Vide Full Employment in a free Society, postscript, P. 271.

intimately spreading itself over employment volumes and rates in the labour market and the investment-structure of the country.

In this regard one of the most important factors tending to affect the investment-pattern of a society struggling to maintain an integrated structure of economic balances happens to be that of capital movements from one country to another, particularly in the backward countries of the world and countries with agricultural production organised for the maintenance of a vital structure of international economic relations in tact. Projects of economic rehabilitation and reconstruction to maintain an adequate degree of full employment will create abnormal international movements of capital, particularly in the war-devastated zones and subsistence zones of the world, which would undoubtedly set in motion gigantic forces making for gross distortion of the regional money markets necessitating urgent readjustment of the regional structure of money market to (a) absorb these heavy capital imports into the country without creating abnormal fluctuations either in prices or in the regional structures of production and (b) facilitate smooth adjustment when the heavy capital imports have to be liquidated through an adequate degree of 'exports' either of commodities and services or of some accepted medium of international payment : the first process generating abnormal productional activity in those industries where the impact of imported capital is heaviest and the second creating abnormal development in the sectors of national production which have to maintain a definite rate of exports, a pattern of economic adjustment which is most 'open' to abnormal fluctuations which might arise in "cost

structure parities between the countries entering into such a scheme of bilateral economic relationships which would undoubtedly create disparities in any scheme of economic stabilisation to maintain full employment patterns of economic relations in the countries concerned.

It is necessary to urge at this stage, that 'monetary mechanisms do not exist for their own sake. They are instruments to facilitate production and exchange of real goods and services. They inevitably reflect and conform with the economy which they are called upon to serve.* Necessarily the task of subjecting 'old monetary mechanisms inherited from the nineteenth century'† to the process of general economic stabilisation to sustain full employment patterns of economic administration is not, indeed an easy one, nor can we readily get rid of the ideological monetary inhibitions which have been fossilised in the money-market to prepare it to withstand the rigorous process of readjustment to the investment and saving patterns, that will emerge out of the new pattern of economic adjustments to keep up structural solidarity of national production with an adequate degree of flexibility to keep up to requisite balance between productivity of the national structure of production and labour absorption or employment maintenance capacities of the different units of production.

Naturally it is difficult to avoid an intensification of the "trend towards national monetary managements in

* International currency Experience, 1944. League of Nation, P. 190. Cf. subsequent paragraphs in Ibid.

† Ibid P. 190.

the interest of internal economic stability”^{*} with the acceleration of the process of general economic stabilisation to maintain a high degree of “full employment” and of the regulation processes pertaining to abnormal fluctuations in industrial activity and agricultural production in the metropolitan zones and primary countries of the world whose economic stability is a closely interwoven into an intricate pattern of international economic relationships.

In such an economic context, the position of countries with a predominantly subsistence type of economic evolution like India, where the sphere of influence of the banking structure is strictly circumscribed to the few urban areas where banking in the modern techniques of money market management have spread, is relatively less complicated than for essentially industrial countries like England, Japan and Germany or essentially agrarian zones of the world like Australia, the Argentine, Brazil, Cuba, Egypt, Greece and those areas where regional specialisation of agricultural production with large scale farming and mechanised techniques of primary production have spread side by side with high degree specialisation in industrial production like the United States of America, where all the economic instabilities peculiar to agrarian, as well as metropolitan zones, are present in an eminently high degree. Naturally problems of economic stabilisation in the United States of America assume a magnitude attained nowhere else in the world since, as Sir William Beveridge observes : “Today the strongest and most productive national economy in the world-that of the United States of America-is also the

* International Currency Experience, P. 191.

least stable.”* Similarly of New Zealand “the outstanding example of a country which has taken full advantage of the benefits of international division of labour.” we are told, “one side of the picture is a high level of industrial efficiency and national wealth ; the other side is a high degree of sensibility to the trade cycle, a sensibility which in the years between the two wars involved violent internal fluctuations in private incomes and employment.”†

India, because of its essentially subsistence type of economy and the narrow range of operation of the banking system of the country, is in a peculiar position today. The Indian money market consists of (a) the Reserve Bank of India, (b) the Exchange Banks; (c) the Indian Joint Stock Bank, (d) the Insurance companies, Indian as well as foreign, (e) the Stock Exchanges, (f) the Cooperative Banks, (g) the Land Mortgage Banks for long term agrarian credit, (h) the Post Office Savings Banks; (i) and the Indigenous Bankers. In spite of this imposing structure of the money market, the main portion of the money-market—except a part of the cooperative Banking structure and a good portion of the Indigenous Bankers—is confined to the few urban areas of the country as our accompanying short survey of the banking structure will presently demonstrate.

The Reserve Bank of India, which happens to be the pivot of the money market of the country, was established on the 1st. of April, 1935, taking over the note issue from the Currency Department of the

* Full Employment P. 233.

† Leicester Webb : *New Zealand in the World Economy*, in *International Affairs*. Vol. XXII, No. 2 for April, 1946.

Government of India and the assets of the Gold Standard Reserve and of the Currency Reserve, and the management of the Clearing House from the Imperial Bank of India, and is the main institution for management of the Bank Rate in the country and is the financial agent of the Secretary of State in Council and the Governor General in Council and also of the Local Governments. The assets of the Issue Department of the Bank consist of gold coin, gold bullion, Sterling securities, rupee coin and rupee securities, with a minimum of gold coins and gold bullion of forty crores of rupees in value and two-fifths of the total assets must consist of gold bullion and gold coin or Sterling securities. The Reserve Bank is charged with maintaining the one shilling six pence ration between sterling and the rupee and for this purpose it is empowered to sell sterling at any of its offices at Bombay, Calcutta, Delhi, Madras and Rangoon not below 1 S. $5\frac{4}{8}\frac{9}{4}$ d per rupee and buy sterling at 1 S. $6\frac{3}{16}$ d. per rupee. As for the Banking Department of the Bank, every bank entering the rank of a Scheduled Bank must deposit with the Reserve Bank of India 5 per cent of its total demand liabilities and two per cent of its total time liabilities. Any bank having a paid up capital and reserve of five lakhs of rupees and more can be placed by the Governor General in Council on the list of Scheduled Banks. The Reserve Bank of India has also an Agricultural Credit Department to coordinate operations of the Bank in relation to agricultural credit and its relation with the Provincial Cooperative Banks and any other institution engaged in agricultural credit operations.

The second institution of importance in the Indian

money market today is easily the Imperial Bank of India which has over one hundred and seventy branches in India and acts as the agent of the Reserve Bank in places where there are no branches of the Reserve Bank of India for which the Reserve Bank agrees to pay Rs. 9 lakhs in the first five years, Rs. 6 lakhs during next five years and Rs. 4 lakhs during the next five years of the Agreement entered into between the Reserve Bank and the Imperial Bank of India, which may be renewed at the expiry of the period of 15 years.

Occupying an anomalous position in the Indian money market, we have the foreign Exchange Banks whose influence in the financing of India's external trade and also a good portion of the country's internal trade has been growing during recent years as the accompanying table testifies:-

EXCHANGE BANKS

Year	Deposits in Lakhs of Rupees secured in India
1900	1050
1918	6185
1930	6811
1937	7321
1939	7417
1940	8532
1941	10673
1942	11685
1943	14019

These Exchange Banks invest a good portion of their resources in the purchase of bills for purposes of financing India's foreign trade, in addition to the usual banking business in the country. The extent of business

done by the Exchange Banks in the country becomes apparent when we note that these banks had a total deposit of Rs. 14019 lakhs as against Rs. 33899 lakhs of deposits of all the Indian Joint Stock Banks in 1943 representing over forty per cent of the entire deposits of all the Joint Stock Banks in the country, while up to 1921 the Exchange Banks had a greater volume of deposits than the Indian Joint Stock Banks.

Before the establishment of the Bank of India and the Indian Specie Bank in 1906, there were few Indian Joint Stock Banks and after that year there was an abnormal spurt in the banking system, with a high degree of non-banking business and reckless speculation, which involved many banks in enormous difficulty, the first bubble to burst being the People's Bank of India, followed by the Indian Specie Bank. Then followed a period of gradual growth of Joint Stock Banks till 1923, when the Alliance Bank of Simla failed followed by a daring merger between the Tata Industrial Bank and the newly established Central Bank of India put through by the accredited banking wizard of our country, the late Sir Sorabji Pochkhanawala. Till 1938, the banking history of this country remained relatively placid till the Travancore National and Quilon Bank burst in that year flinging the Indian Joint Stock banking structure in South India into the vortex of a threatened crisis which was very quickly averted by the Reserve Bank. There has been during recent years—particularly in the war years of 1939–45 a phenomenal growth of Joint Stock Banking in this country, with considerable acceleration of branch banking, with giants banks added to the banking structure of the country, the

Bharat Bank Ltd. with a capital of Rs. 201 lakhs, with deposits amounting to Rs. 1,396 lakhs and the United Commercial Bank with a capital of Rs. 100 lakhs and a deposit figure of Rs. 1722 lakhs, each having a reserve fund of Rs. 6 lakhs and Rs. 7 lakhs respectively. Of the banks which have built reserve equal to or exceeding their capital may be mentioned, the Allahabad Bank, the Bank of Baroda, the Bank of India, the Bank of Mysore, the Indian Bank of Madras, and the Punjab National Bank, while in the volume of deposits, the first place is taken by, the Central Bank of India, followed by the Bank of India, Bank of Baroda, the Punjab National Bank and the Allahabad Bank.

As regards Clearing House facilities, India has only four Clearing Houses at Bombay, Madras, Calcutta and Karachi, the Clearing House at Bombay and Calcutta leading in the extent of cheques cleared annually :

CLEARING HOUSE RETURNS :

Cheques cleared annually (In lakhs of Rupees)

Year	Calcutta	Bombay	Madras	Karachi
1930	89313	71205	5218	2550
1937	99250	83667	10928	3656
1939	107611	83722	9721	3557
1941	120249	97875	13131	5693
1942	106406	118567	12415	6922
1943	154061	184763	18596	9811
1944	222282	217284	21652	11693

In 1944, India had about 228 Life Insurance Companies (Indian) for a total of 323 companies, Bombay Presidency having 88 Head Offices, Bengal 54, the Madras Presidency 36, the Punjab 17 among the major Provinces, and in 1943, the sum insured (new business)

amounted to Rs. 65. 24 crores with an average policy of Rs. 2,258 ; and the rate of interest earned by the Life Fund in 1943 was 3.88 per cent and the Life offices earned interest at the following ratio : in 1939, 4.68 per cent ; 1940, 4.37 per cent ; 1943, 3.88 per cent and the expense ratio of the Life companies fell from 41.8 per cent in 1939 to 31.4 per cent in 1943. A study of the Assets of Indian Life Offices reveals that over sixty per cent of their assets consisted of Indian Government securities, with about 8 per cent in shares of Indian companies and about 6 per cent in Municipal, Port and Improvement Trust Securities while about 7 per cent represents loans on policies.

In 1942-43, the Provincial Cooperative Banks had a working capital of Rs. 17.48 crores and we had ten Provincial Cooperative Banks : eight in British India and two in Indian States-Mysore and Hyderabad. The Provincial Banks accept not only deposits but also float debentures. The Bombay Bank has floated debentures for Rs. 8.8 lakhs while the Madras Bank has floated debentures for 2.18 lakhs and the Punjab Bank for Rs. 5 lakhs. There are ten Cooperative Land Mortgage Banks, while Bombay has 17 Land Mortgage Banks and a Provincial Land Mortgage Bank, and Madras 119 primary banks and a central Land Mortgage Bank. The Banks had in 1942-43 a working capital of Rs. 7.78 crores and had issued loans to members to the extent of Rs. 36.18 lakhs and to banks to the extent of Rs. 38.48 lakhs, and in 1943-43, we had 589 Cooperative Central Banks, 271 Land Mortgage Bank and Societies, 1,26,124 agricultural cooperative societies, in the country.

The earliest Stock Exchange in the country was

started in 1887 when the Native Share and Stock Brokers Association was inaugurated with a membership of 475 brokers at Bombay. The Calcutta Stock Exchange Association was founded in 1908 and the Madras Stock Exchange Association was instituted in 1937, and at present there are Stock Exchanges in Ahmedabad, Delhi, Lahore, Cawnpore with the prospect of two more Stock Exchanges in Nagpur and in the Hyderabad State. The shares which are most popular on the leading Stock Exchanges of the country are the iron and steel shares, sugar shares, textile shares, bank shares and Government Securities come last because of the slow degree of oscillation in their prices, while in recent years there has been a good deal of speculation in plantation shares also, particularly in South India. Besides the Stock Exchange, there are heavy speculations in bullion, cotton, oil-seeds and a few other select commodities in the country, these speculations being widespread in the upcountry areas.

The various institutions, noted above, are mainly concentrated in the few urban areas of the country while financing of the vast internal trade of the country is done by the huge and influential body of indigenous bankers and Shroffs who carry on a considerable portion of the banking business of the country, though they have not yet been brought within the sphere of influence of the organised money market of the country or the Reserve Bank of India. "Under the present conditions", we are told, "the banks in India can never hope to be able to get into sufficiently close touch with the affairs of the vast trading community in India . . . and it is in his capacity as a middleman that the Shroff proves of

such great service.”* The business of the indigenous bankers is shrouded in deep mystery, as all attempts of the Reserve Bank to bring them within the fold of the organised money market of the country have so far proved of no avail. “It is not known to what extent native bankers and Shroffs receive deposits and engage in exchange business throughout India, but there is no doubt that this is done to a very considerable extent.”†

In the absence of a network of banking institution which have hardly spread their branches beyond a few urban areas of the country, the bulk of internal trade of the country is carried on against cash. The enormous inflation that the country has had to bear in the recent war years becomes apparent from a comparative study of the volume of notes in circulation, leaving out of account the volume of token currency.

(In crores of Rupees) *

Reserve Bank	1939	30th August 1946	1945
Notes in circulation	172.44	1,209.22	1,139.45
Notes held in the			
Banking Department	35.05	49.64	14.57
Sterling Securities	39.50	1,135.33	1,034.33
Rupee Securities	37.39	57.84	57.84

The total number of notes in India stood at Rs. 894.84 crores at the close of the year 1943-44 as compared with Rs. 655.11 crores in 1942-43.

Consistent with these enormous fluctuations in the volume of currency, the deposits of banks also experienced a phenomenal expansion as seen below :—

Indian Year Book 1945-46 P. 682.

† Ibid, P. 683.

Scheduled Banks

(In crores of Rupees)

	1939	30th August 1946	1945
Demand Liabilities	134.37	743.45	643.56
Time „	102.24	318.02	251.80
Balances with the			
Reserve Bank	25.28	76.43	103.90
Advances	101.52	391.80	263.68
Bills	3.57	19.50	13.56
Cash	6.71	47.42	34.46

Imperial Bank (In crores of Rupees)

	1939	30th August 1946	1945
Deposits	87.76	262.36	242.44
Advances	30.37	89.08	59.81

The foregoing study of the money markets in India clearly reveals that while the banking system of the country has spread only in 'distributing centres' of the country since 'commercial banking' forms a major section of the banking business, and has closely followed the example set by the Exchange Banks which are spread over urban centres like Bombay, Calcutta, Madras, Cawnpore, Delhi, Amritsar, Karachi, Lahore, Chittagong, Tuticorin, Cochin, Simla, Rawalpindi, Murree, Srinagar and Gulmarg, the Indian Joint Stock Banks have followed the centralised type of banking organisation, with enormous spread of branch-banking in the trading and industrial centres, while the financing of agriculture, which forms the

major section of our national economy, is left to the indigenous bankers, who finance the internal trade of the country through the *bundi* and cash

Naturally, the absorption of cash is enormous in our country where the cheque habit does not spread in the absence of adequate banking facilities in the greater part of the country and the peculiarly 'urban' type of evolution of Indian banking. Another feature, special to our country, is the enormous amount of cash that would be required during the harvest seasons, which differ from one region of the country to another, though the lag between the beginning of harvest is not very great, which can only be met by a money-market which maintains the requisite degree of built-in flexibility in regard to cash facilities to meet abnormal expansion of cash during harvest seasons and abnormal contraction in cash during the off seasons.

The Indian money-market does not possess this built-in flexibility to meet seasonal demands for purchasing power with the result that the primary producers are caught in the double process of changes in the aggregate volume of commodities, and rigidity in the adjustment of the aggregate volumes of purchasing power to meet the increased velocity of circulation of purchasing power, both of which exert terrific pressure on the primary price structure creating abnormal fluctuations, during harvest seasons, in agricultural prices, with cumulative effect on the structure of agricultural incomes, and the dynamics of agrarian production which is already suffering from the

economic rigidities inherent in a subsistence pattern of economic administration.

It is needless to urge that the evolution of modern banking in India has accumulated two sets of rigidities (a) the rigidities 'special' to a subsistence type of economy which has enormous effect on the volume of savings and velocity of bank deposits; (b) the rigidities created by the absence of high degree elasticity in the volume of purchasing power to meet seasonal fluctuations in the velocity of circulation, complicated by lack of spread of banking habits in the wider part of the country, and consequently reduced radius of circulation of cheques and 'hundis'.

It is not an easy financial feat to devise a currency system which will keep the volume of purchasing power adequately balanced with the accelerated velocity of circulation of purchasing power, particularly, when that acceleration in the velocity of circulation is regular, intermittent and of short time duration—confined to the harvest months when the flow of primary goods into the commodities market depends upon the uncertain factors of the monsoon and equally 'uncertain' responses of agricultural production to price-formations. Expansion of currency to meet abnormal acceleration of its velocity of circulation during harvest seasons, even though it might lead to a temporary stabilisation of primary price-fluctuations, which might otherwise be caused by abnormal disparity between the volume of purchasing power and its velocity of circulation, may lead to 'inflationary' fluctuations in the structure of relative prices, if the increased volume of purchasing power is not quickly reabsorbed into the money-market, without causing any

dislocation to the normal money-market adjustment ratios—which implies a high degree of automatic flexibility in the money-markets for which no machinery has yet been devised in any country, since the process of contraction in the volume of purchasing power involves, normally, a certain time-lag with ‘specific’ distortions, not only in the structure of relative prices but also certain readjustments in the banking system of the country, the ramifications of which cannot be accurately measured or foreseen at any time.

Obviously, high degree flexibility in the volume of purchasing power cannot be built into the structure of the banking system of the centralised, branch banking type or into an economic system which has got to maintain the requisite degree of stability in the value of the currency unit and must keep the volume of purchasing power necessarily coordinated with the essential requirements of such stability. Expansion of branch-banking to cover the financial requirements of the seven hundred thousand rural zones of the country where the demand for purchasing power is eminently seasonal, depends upon compensatory adjustments in the structure of regional savings essential to maintain the banking business of the rural areas evenly spread over the busy as well as off-seasons—which postulates for conditions in the rural money-market which do not exist today. Any attempt to maintain the requisite degree of seasonal flexibility in the volume of purchasing power to equate it with seasonal demands for currency, through branch-banking, will undoubtedly create such a terrific seasonal drain of cash from the Central institutions connected with the branches, that it will seriously contaminate the investment-policies of

the banks and will be tantamount to seasonal runs on banks which may easily destabilise any banking organisation in the world, particularly when the conditions making for expansion of 'money' during harvest seasons are to be liquidated by an equally powerful process of almost instantaneous contraction of 'bank money' during off seasons, which will undoubtedly exert terrific pressure on the structure of assets which the banking system has to maintain to keep its stability and liquidity in a competitive money-market, stultifying its growth and affecting its foundations of cash as well as the credit superstructure which it can maintain.

Naturally, in the absence of monetary conditions for the establishment of a stable money market in the vast rural regions of the country, because of the flimsy monetary foundations of a subsistence type of agrarian production, the main banking system of the country has to lead a life cut off from the main currents of the essential economic matrix of the country, and has, confined its activities to financing the 'distributory trade' of the few 'urban centres' and has been of an essentially 'commercial' type, leaving the rural money-market in the hands of predatory financiers like the mahajan, the bania, the pathan, the Multani and the shroff who can easily take advantage of the inflexibility of the currency system and manage price-fluctuations in agricultural commodities to reduce the cost-price margin which the cultivator can secure in the primary markets of the country. Consequently there has been no organic connection between the rural money-market and the general money market of the country. Such a 'development' has brought 'stagnation' and 'destability' in the banking system whose fortunes are

dictated by the trend of 'trade' which a subsistence economy can sustain with all the grave uncertainties which haunt its processes of production and marketing, and grave 'unstability' in the rural markets due to the uncontrollable rigidity in the process of adjustment between the volume of purchasing power and its velocity of circulation during the harvest seasons and off seasons. The development of banking in India has been "atomistic" rather than "organic".

Thus the fortune of the banking structure is closely inter-woven with the fortune of India's trade—internal as well external—the volume of trade Indian can maintain depending upon the fluctuations in the structure of relative prices in an economic conjuncture where even "normal" adjustment between the volume of 'money', and its velocity of circulation is fundamentally lacking. Thus as the Hand Book of Commercial Information tells us, if "the hectic boom of 1920 is strikingly reflected"^s in the clearing house returns for that year, the trade-depression of 1930-36 was also reflected in the clearing house returns. If the total value of cheque, cleared in 1903 was £433,567, it shot up to £930,606 in 1918 due to trade boom of the war and reached the peak figure of £1,202,920 for 1919 and £2,101,066 in 1920, and sharply declined to £1,226,673 in 1925 and to £1,171,125 in 1931, to £1,183,118 in 1932 and recovered to the level of 1920, only in the year 1943—again another year of abnormal trade conditions in the country under the impact of the war of 1939-45, nearly quarter of a century later :

* Vide P. 117.

Clearing House Returns

(In lakhs of rupees)

Year	Amount
1903	10566
1913	64780
1919	139643
1920	301140
1930	191862
1938	202598
1940	232019
1941	271106
1942	266380
1943	394212

So also the deposits of all the Indian Joint Stock Banks remained practically stationary from 1920 to 1936 a period of sixteen years !

Deposits

(In lakhs of rupees)

Year	Amount
1910	2565
1917	3117
1920	7114
1923	4442
1930	6325
1935	8444
1939	10073
1940	11398
1941	13764

These data clearly demonstrate the slow pace of development of the banking system, in relation to the banking requirements of a sub-continent with nearly two million square miles in extent and with a popula-

tion of four hundred millions, the majority of whom are living in the rural zones, shut off from the modern amenities of life. This is so because of the lack of coordination between the banking system and the general economic evolution of the country, which has been of an essentially subsistence type.

Whatever the merits of branch-banking as developed in other countries like the United Kingdom, Canada, South Africa and Australia, it should be obvious to any one who invests the requisite amount of thought on the banking problems of a country with an essentially subsistence type of economic evolution, like India, and with abnormal seasonal fluctuations in the velocity of circulation of money and the inherent rigidities of the rural money market, that branch-banking of the 'commercial' type is unsuited to the banking requirements of the country which needs a banking structure which can have the requisite degree of flexibility in the management of regional money-markets to maintain stability of prices, with an adequate degree of stability and liquidity of the banking units consistent with the regional money market conditions,

Such a banking system must be, clearly of the Federal type resembling more the Unit Banking system of America rather than the centralised type of England with branch-banking,* with a definite degree of flexibility in the composition of the bank assets, consistent with the prevailing conditions in the regional or local money-market, and with certain 'monetary' connections with a Central Banking Institution which will have no power of control over the internal affairs of the banking unit. Naturally this implies greater

* Vide R. Sayers, *Modern Banking* pp 21-23.

autonomy in banking affairs to the Unit Banks, than what a Branch Bank linked administratively and financially to a Head Office can ever attain, and will at the same time ensure the requisite degree of flexibility in the banking structure without any damage to its structural or functional stability, and elevate it to the position of a coordinated part of regional economic evolution instead of segregating it from the main trends of regional economic life.

It is patent that without the requisite degree of regulated flexibility in its structure, the banking system of the country will be unable to maintain the necessary stability in the structure of relative prices, without which no adequate programme of full employment can be sustained. Logically the programmes of economic stabilisation adumbrated in the foregoing pages, postulate for a decentralised and regionalised banking structure which can reduce the range of price-fluctuations in order to keep up the requisite pattern of adjustment between production and employment in the regions concerned.

In the initial period of economic reconstruction, the banking system of the country will have to be reorganised to withstand heavy international as well as inter-regional capital movements and in this connection, the Reserve Bank of India will have to exert every nerve to maintain the currency system from inflationary readjustments which international capital movements and the financing of regional developmental projects will undoubtedly generate, by clever management of the money market through an adequate machinery which can act as monetary shock-absorber, since abnormal monetary fluctuations will create cataclysmic distur-

tions in the structure of relative prices which would unnecessarily inflate the money cost of the developmental programmes of economic rehabilitation to maintain a high degree of full employment.

In this process of monetary management a Unit Banking system* with a severe circumscription of its sphere of operation and closely interwoven into the regional economic system offers greater flexibility and stability than a branch banking system whose pulse must correspond with the intensity of monetary pressures manifesting in the central money-market of the country, because of the vast distances and the immense diversities that regional programmes of economic development will, undoubtedly, present in view of the specific problems of each region in the country.

This analysis does not postulate for the abolition of the existing banking system, which will have its place in the reconstituted money market, with its operation strictly confined to mere "commercial banking", but the existing system will form a coordinated section of a continental federation of banks a monetary pyramid-whose base will be covered by Unit Banks and it would not be a difficult financial feat to find an adequate place for the existing Joint Stock Banks as an integral part of the national money market.

Necessarily the Reserve Bank of India will have to

Professor R. Sayers has an unconscious error in his book : *Modern Banking*, when he states : "In India the existence of a predominantly unit banking system leaves more scope for the inland bill of exchange and there are quite good markets in the main centres (Bombay being the most important)." P. 69 In India today we have branch banking with all the rigidities of the unit banking system.

undergo certain structural changes, with a greater degree of zonal decentralisation than has been manifest today. A centralised Reserve Bank for a vast country like India would be as great an anachronism as a Federal Reserve Bank for England whose economic development has been dominated by a high degree of concentration in foreign trade with the necessary international monetary complications which are better managed by a centralised banking system with a network of commercial banks whose branches are spread throughout the world to facilitate England's foreign trade.

India's monetary problems are fundamentally different from those of England and resemble more those of the United States of America, since India's economic stability does not depend upon the maintenance of a vital structure of foreign trade as that of England, and though India's standard of living is fundamentally lower than that of England or of America, she can attain a greater degree of economic autonomy than England, though the economic advantage of maintaining a certain degree of international economic relationships to sustain a progressive standard of living for the country are not denied. Naturally, the problem of full employment does not assume the same magnitude which it reaches in England and America, the former because of the vital structure of foreign trade which she must maintain in order to keep the requisite degree of industrial stability to sustain an adequate pattern of full employment, and the latter because of the complexities of a technically highly advanced structure of industrial production, and large scale agriculture, for which an expanding market has to be maintained consistent with 'full employment' standards of industrial and agricul-

tural productivity, leaving alone problems of international investment, which have assumed managng proportions in the American capital markets.

India's Banking system has so far led an existence independent of the general economic matrix of the country and an adequate programme for general economic stabilisation to sustain full employment would necessitate integral development of banking with a greater degree of decentralisation and structural changes to maintain stability of relative prices without which stability of production and employment cannot be maintained.

A programme of full employment for our country also implies certain drastic changes in the existing pattern of distribution of bank assets, and in order to effectively regulate the savings—investment ratio, as far as it can be managed from the side of the money-market, a strict control of the banking operations becomes imperative. The machinery of control at present existing in the money market is not adequate enough to control banking operations, as our experience of banking trends during periods of trade cycles and financial cycles amply illustrates.

Mere reproduction of Unit Banking, in this country, as it exists in the United States of America, will offer no proof against monetary mismanagement and maladjustment. Whenever abnormal price-fluctuations create cleavage between the flow of savings and the pace of investment by gross distortion of liquidity preference ratios, close control of the banking system clearly postulates for adequate delimitation of the area of monetary influence of each banking unit with adequate adjustment in the technique of banking opera-

tions to bring about requisite balance between the flow of savings and the velocity of circulation of deposits which it can create. In such a process of adjustment efficient small Banking Units possess advantages which large banking organisation with branches spread over the country, with all the Patent monetary inhibitions of their Head office can even dare to attain.

Further, control of investments to maintain full employment not only implies adequate management of Stock Exchange operations, but effective cornering of all speculation, in stocks, as well as commodities, but also regulating the investment policies of long term credit institutions like the Insurance Companies and the Land Mortgage Banks whose business will have to be decentralised and spread over the Unit Banks, whose sphere of business will be coextensive with the regional monetary and investment needs.

It is thus that the banking system can be forged into the frame work of a policy of general economic stabilisation to sustain "full employment". A highly individualist market which pursued a 'quietist' doctrine of self evolution could easily destabilise any programme of 'full employment' in so far as relative price-fluctuation can be generated and sustained by gross distortions in the volume of purchasing power which the banking system can release on the economic structure of the country.

CHAPTER VI

FULL EMPLOYMENT AND FOREIGN TRADE.

“Our task for the future,” writes Professor Simons, “is, simply that of recapturing what was good in the nineteenth century order, its relatively free trade, its free movement of private capital, its rapid material progress, its confidence in democracy, its emphasis on individual liberty, and its hope for a secure world order. If we would recapture these things, we cannot wisely ignore the political and economic philosophy of their time, the traditional liberalism which flowered at the height of world progress and guided or rationalised the policies on which that progress was founded.”* “International trade”, says Sir William Beveridge, “has fundamentally different aspects for a country with full employment and for a country which, through deficiency of effective demand for the products of its industry, is liable to chronic or recurrent mass unemployment. For a community enjoying full employment, international trade, is a means of raising the standard of life by international specialisation and exchange; exports are desired only as a means of paying for imports, they confer no advantage unless they are exchanged for imports immediately or later.” †

These two obiter dicta represent two different strands of economic thought: one emphasising that the future economic progress for the world can only

* Henry C. Simons, *Trade and Peace*, in *Post War Economic Problems*, 1943. New York. P. 145.

Full Employment, pp. 208-09.

be guaranteed by global economic evolution based on 'economic' liberalism which accepts free international economic relations as the most powerful engine of national economic prosperity and the other postulating for an adequate adjustment between the structures of international trade and the maintenance of 'full employment' consistent with the dynamics of international progress in industrial and agrarian technology to maintain an integrated pattern of industrial and agricultural productivity.

The phenomenal progress of industrial and agrarian technology in the last hundred years has undoubtedly changed the contours of economic problems which await solution in every country of the world. As long as the area of technical progress in the process of primary and secondary production was effectively circumscribed to the metropolitan zones of the world, international trade was an effective vehicle of economic prosperity for the metropolitan zones, since the scaling of nations into primary zones and industrial powers created a pattern of economic specialisation, which brought all the benefits of international division of labour to the participants, irrespective of the vast zones of economic distress which it created within each country, which the economic thought of the nineteenth century accepted as "incidental" to the giant strides of the world in the creation of material wealth.

Obviously the nineteenth century had managed to keep a technical system, which was still young, adequately balanced with the dynamics of general progress ratios. When Professor Taussig wrote: "So far as the division of labour between countries and their trade are the results of natural differences, they are best left to work

out their results without restriction. *But so far as they rest on acquired skill, there is at least a possibility that they may be superseded to advantage by similar division of labour and similar trade within the country,*"* he was, indeed, conscious of, what Hansen has called, "the eventual spread of capital equipment and modern techniques throughout the world"† with progressive contraction of the zone of international specialisation of primary and secondary production, with resultant complications in the structure of international trade, creating enormous problems in the effective organisation of industry to coordinate it with drastic contraction markets without serious damage to industrial and agrarian productivity generated by giant strides in technical progress.

"One of the more tempting approaches to the problem of unemployment," we learn, "is via the balance of payments, since in principle the problem can always be solved on the domestic level by the attainment of a sufficiently large export surplus".‡ Naturally, as the phenomenal progress of industrial and agrarian technology enhanced the productivity of national economy, in the early years of the 20th century, it created two major problems : (a) the problem of rising unemployment rates in all branches of industry subjected to an intensive process of technical reconstruction and (b)

* Principles of Economics (Italics mine) Vol. I Third Edn. P. 47.

† America's Role in the World Economy. P. 31.

‡ Randall Hinshaw ; Foreign Investment and American Employment in the American Economic Review for May, 1946. P. 661.

the problem of price-stabilisation to prevent abnormal shifts in the structure of national production, as technical progress went on distorting the ratio between the 'volume' of production and the intensity of consumption of a market which was subjected to two processes of economic adjustment : (i) growing rigidity of international decentralisation of secondary industries through manipulation of tariff to preserve regional price-structures, production-schedules, employment-rates and income-standards, from being contaminated by international economic instabilities set up by the dynamics of 'productivity' reacting to changes and shifts of technical advance ; and (ii) a slowly sinking consumption-propensity in the market which had to readjust its 'dynamics' to cyclical fluctuations precipitated by the vicious spiral of technical progress and high degree price instabilities generated by grave distortion of individualist money-markets seeking adjustment with the tempo of an investment market contaminated by "errors of anticipation"--the normal concomitants of competitive business caught in the grip of trade and financial 'cycles'.

For an economic system caught in the maze of technical progress and the abnormal 'unemployment-rates' which it creates, by distorting cost-structure formations through wage and price-fluctuations, the only easy escape seems to lie in the expansion of export-trade which alone can stabilise production and employment rates and 'keep technical change from creating undue fluctuations in employment rates, by spreading the incidence of price-fluctuations over a wider area, through the mechanism of foreign trade, to the industrially less efficient zones of the world.

It is thus 'foreign trade' emerges as a powerful engine (a) for international economic expropriation through a bilateral structure of "international" economic relationship; particularly when markets are dominated by consistent dumping policies, which would give the 'dumping' countries the advantage of dominating the exchange market of the country which is receiving the goods and thereby dictating the content and course of exports from that country; (b) for preventing 'unemployment' within itself, by exporting unemployment to the other countries, through export of capital needed for reconstruction and development of the war-devastated and backward tracts of the world and generating bilateral trade which, while maintaining full employment in the capital-exporting country, will so twist economic evolution in the capital importing country that it will become a permanent economic colony for the capital exporting economic zone, creating in the ultimate analysis, an economic scaling of nations far worse than the colonial system of the nineteenth century and the New Economic order which the Greater Germany of the Nazis tried to adumbrate in the European zones under their domination in the opening years of the present decade.

A structure of international economic relations which can effectively prevent, what Sir William Beveridge has called, "export of unemployment" can only come by an adequate realisation that : "the notion that industrialisation and development of the backward countries would result in a reduction of world trade is completely mistaken,"* and that "in a world in which

* Hansen : *America's Role in the World Economy*. P. 93.

full employment is reasonably well maintained all round we shall be able to come much closer to an optimum international division of labour than we have ever attained in the past. In such a world it becomes blatantly foolish to waste productive resources on products that can be far more economically imported from abroad. ~~At~~ In a full employment society it will be much easier to reduce tariff barriers and remove quantitative restrictions on imports. In a full employment society stabilisation of exports, whether directly or by currency depreciation will not be tolerated. In a full employment society emphasis will be placed not upon exports but on imports.”† The thesis developed here needs close and critical consideration, particularly in its application to the backward tracts of the world.

It is axiomatic that a full employment international economic society creates a structure of international economic relations which is fundamentally different from the foreign trade which competitive economic administration of world economic resources has today set up, if we accept that a certain degree of regulation of regional economic evolution is inexorable in attaining a full employment pattern of economic relations in any region, and as long as international trade is a reflex of regional economic administration, it will exert certain pressure on the structure of international economic relationships away from the existing pattern of world trade. Maintenance of full employment in any region postulates for control of inter-national movements of goods and services which might create abnormal divergences in employment rates and drive a regi-

onal economic system away from reaching full employment consistent with a certain degree of national productivity and adjustment of wage-formations. This will undoubtedly create a form of inter-national specialisation which generates an "international trade" which might be the most powerful transmitter of "unemployment" from regions of 'lower wages' to regions of higher 'wage-formations' unless divergences in international standards of living are adequately 'liquidated' through price and wage stabilisation programmes comprehensive enough to cover all the nations of the world which enter into the new pattern of world economic relationships. Such international standardisation of price and wage-formations and, *mutatis mutandis*, standards of living will postulate for a pattern of international cultural collaboration the prospects of which are vitiated by enormous political and cultural difficulties, even if economic difficulties inherent in such a programme of world collaboration are to be ignored for purposes of argument.

Such a pattern of world trade will not make for an 'optimum international division of labour' since any scheme of international specialisation of production with a view to an integrated programme of world economic 'stabilisation' would create 'labour gaps' which would effectively neutralise forces making for full employment because of the existence of vast zones in the world whose production schedules are more 'competitive' than 'complementary', and 'specialisation process in production' would only emphasise regional differences in wage-standards with their impact on regional 'cost structures' which would enable them to export 'unemployment' to those regions whose 'cost structures'

are distorted by the dynamics of wage-formations which reflect regional standards of living consistent with the cultural and social conjuncture, peculiar to the regions of 'higher wage-standard'. This will necessary lead to (a) either maintenance of cost structure parity through greater technical advance which will create not only regional 'employment' problems but also prevent greater 'spread of capital and modern technique throughout the world,' (b) or will generate tariff war between low 'wage-standard' zones and the existing 'metropolitan zones' whose wage-formations are adjusted to a higher standard of life, and though 'imports' may assume greater importance in the reorganisation of international trade under full employment, it will not be possible to prevent a certain degree of 'export of unemployment' specially in international trade between regions having different wage-standards generated by fundamental differences in standards of living between the areas concerned.

In such a situation, with the spread of capital equipment and modern techniques throughout the world and diffusion of programmes of economic reconstruction for full employment, the trend towards 'bilateral trade' between nations cannot be easily avoided, nor can it be maintained that full employment or economic stability can be attained with greater emphasis on "imports" alone, since such a reconstruction of world trade would lead to long-run distortion of exchange ratios which no economic system wedded to full employment economic evolution, can pretend to sustain.

It is needless to urge that the structure of foreign trade in a world of full employment must be so devised as to avoid "import of unemployment" so as to avoid

tariff war among nations and the sinister trend towards 'bilateral trading' which is inevitable in an attempt to keep up "cost structure parity" with the requisite degree of international economic relations to maintain "full employment" patterns of economic evolution in every part of the world.

It is into such a scheme of global economic relationships that India will have to be fitted, with a foreign trade which will not export unemployment, while at the same time, maintaining internal programmes of full employment consistent with adequate degree of productivity of the national economic system. Such a scheme of adjustment of the external economic relations of the country would drastically transform the content and volume of foreign trade which our country is maintaining today.

The following table gives the value of foreign trade of India from 1864 to 1943.

Foreign Trade of India

(in £s.)

Year	Imports	Exports
1864-65 to 1868-69	32,880,000	38,440,000
1899-1900 to 1903-04	73,793,333	91,046,666
1914-15 to 1918-19	132,218,782	155,034,658
1924-25 to 1928-29	213,086,934	249,745,593
1929-30 to 1933-34	130,897,704	180,624,712
1934-35	104,099,341	163,929,862
1935-36	108,200,000	157,700,000
1938-39	114,000,000 *	127,500,000 *
1942-43	82,500,000 *	145,500,000 *
1943-44	81,280,000 *	157,500,000 *

(Source : Hand Book of Commercial Information, and Indian Year Book 1945-46.)

Note : * These figures do not include trading on Government account, and have to be taken as tentative.

Distribution of the Foreign Trade of India

Among the countries :—

Countries	(Percentage)					
	1913-14		1918-19		1935-36	
	Import	Export	Import	Export	Import	Export
United Kingdom	64.1	23.4	45.5	29.2	38.8	31.5
Australia	.5	1.6	1.3	2.6	1.0	1.7
U. S. A.	2.6	8.7	9.5	13.8	6.7	10.1
Germany	6.9	10.6	9.2	5.8
Japan	2.6	9.1	19.8	12.1	16.3	13.4
U. S. S. R.	.03	.9	.003	..	1.2	.2

In 1938-39 our total foreign trade was distributed as under : British Empire took 35.2 per cent and foreign countries absorbed 64.8 per cent, while in 1943-44, British Empire maintained 35.3 per cent of our total foreign trade while the other countries had 64.7 per cent of the total external trade of the country (leaving trading on Government account which was considerable during the war years 1939-45).

There is no doubt that during the war years 1939-45, the share of the United Kingdom in the foreign trade of the country has been drastically transformed as the heavy accumulation of Sterling balances to the credit of India in recent years amply demonstrates. The figures of foreign trade as published for the years under reference are distorted by the enormous restrictions placed on exports through Export Control Regulations on the one hand and difficulties of oceanic and land transport on the other, combined with war-time distortions in the structure of international economic relations.

The trend of foreign trade in the pre-war years definitely points to a progressive deterioration in

the external trade of the country from the dawn of the present century to the out-break of the recent world war. Thus in imports, our country was unable to maintain progress commensurate with the acceleration in the rate of population growth from 1904-05 to 1934-35. In 1904-05 to 1908-09 the value of our imports stood at £ 104 millions, while, in 1934-35, it stood at £ 104.09 millions—while in the same period, the value of our exports had risen from £ 116 millions to £ 157 millions, while our imports had reached a peak figure in the quinquennium, 1924-25 to 1928-29 at £ 213.08 millions and the value of exports stood in the same period at £ 249.74 millions.* “In 1925”, we learn, “the exports of merchandise rose to a record figure of £ 266.6 millions due to increased exportation of jute and food grains and the imports improved by £ 10.6 millions largely due to increased importations of sugar and cotton piece-goods.”†

Regarding the composition of our exports in the quarter of a century from 1910 to 1935, raw jute fell off from £ 20.5 millions in 1913-14 to £ 10.2 millions in 1933-36, raw cotton from £ 27.3 millions to £ 25.3 millions, jute manufactures from £ 18.8 millions to 17.6 millions, cotton manufactures from £ 27.3 millions to £ 25.3 millions, oil seeds from £ 17.1 millions to 7.7 millions, coffee from £ 1.02 millions to £.76 millions, spices from* £ .6 million to £ .4 million, silk from £.16 million to £.03 million, sugar from £.9 million to £ .01 million. In imports cotton manufactures fell, in the same period, from £ 44.19 millions to £ 15.88 millions, iron and steel from £ 10.6 millions to £ 4.6 millions, while the value of imports in machinery and

* Vide Hand Book of Commercial Information, P. 121.

† Vide Ibid. P. 119.

mill work, instruments and apparatus, motor-cars and cycles, rubber-goods, and raw cotton registered an increase, the most phenomenal increase being noticeable in the import of raw cotton, during the period under review, which rose from £ .18 million in 1913-14 to £ 5.05 millions in 1935-36, and a dramatic fall in the value of imports of sugar from £ 8.3 millions to £ 1.4 millions.

Two factors have been responsible for the contours of foreign trade in our country : (a) the growth of the industrial structure of the country under 'discriminating protection' which has been responsible for shrinkage in imports ; (b) the growth of 'most favoured nations' trade particularly among Imperial units, which has directed the course of our foreign trade. If we add to them, the enormous growth of population in the country and the complications set up by a serious "over valuation" of the rupee which has been pegged to the sterling at 1 s. 6 d. to the rupee, with repercussions on the internal price and cost-structure and the emergence of powerful competition particularly in oil-seed and cotton, we can get an adequate idea of the forces which have been shaping the course and content of our foreign trade since the beginning of the present century. Thus about the exports from our country in 1934-35, we learn, "The value of exports of merchandise also showed an improvement of £ 3.4 millions, *which might be ascribed partly to the effects of the Ottawa Agreement*"* About our foreign trade in oil-seeds, we are told : "The increased competition of the Argentine Republic, the United States of America, Canada and Russia have

* Italics Mine : Hand Book of Commercial Information, P. 120

reduced considerably India's share of the trade.”* In linseed, India's share between 1913 and 1935 had remained practically stationary in England from 21 per cent to 23 per cent, while it had fallen from 41 per cent to 2 per cent in France and from 57 per cent to 20 per cent in 1934 in Italy. Similarly our groundnut trade had fallen in the same period from 222.3 thousand tons to 140.6 thousand tons in France, from 16.6 thousand tons to 9.1 thousand tons in Belgium, while our exports to United Kingdom, Germany and Italy has increased during the period under survey.

“India has since the beginning of the nineteenth century,” writes the official Chronicler, “come to be regarded like Argentine chiefly as a producer of primaries During the war (1914-18) circumstances and policy encouraged larger exports of manufactured or partially manufactured goods, and in the post-war boom the percentage of exports of private merchandise falling under this category, reached its peak. *The trend of the trade in later years is marked by variations, and it has now declined below the pre-war level.*”† The foregoing extract, read with the statistical data pertaining to our foreign trade, definitely proves the progressive deterioration of India's foreign trade since the beginning of the twentieth century. This state of affairs has been brought about by several factors like the emergence of more powerful competition in primary products from countries like Argentine, Australia, Newze-a-Land, Canada, U. S. A., Russia and

* Ibid P. 205.

† Italics Mine, Hand Book of Commercial Information for Inndia, 1937, P. 131.

Egypt, and Roumania particularly in the commodities in which India had long enjoyed comparative 'monopoly', the growing rigidities in her primary cost-structure on units of production which is scattered in the hands of indigent cultivators and the diversification of industry in the primary zones of the world coupled with enormous competition which our country had to meet in the Eastern and Mid-eastern markets from Japan particularly in textile goods.

It is needless to urge afresh that with the reconstruction of the economic system of the country to sustain full employment pattern of economic adjustment, our foreign trade should be fundamentally changed. As Sir William Beveridge has put it, "International trade has fundamentally different aspects for a country with full employment and for a country, through deficiency of effective demand for the products of its industry, is liable to chronic or recurrent mass unemployment. For a Community enjoying full employment, international specialisation and exchange; *exports are desired only as a means of paying for imports; they confer no advantage unless they are exchanged for imports either immediately or later.*"* Thus our exports must be so planned as to pay for the imports which are essential for raising our economic system from the subsistence economy stage to the full employment pattern of economic evolution. Naturally the structure of foreign trade, particularly exports, becomes highly complicated when it has to liquidate the heavy imports of capital from abroad essential to implement the heavy reconstructional

programmes which are necessary to maintain full employment for India; since the exports, we send out, must be such as will not carry 'unemployment' to the importing community or damage the structure of full employment at home by a gross misdirection of productive resources to maintain an integral pattern of 'cost structure parities' with the other countries of the world.

Full employment for India is unattainable without heavy capital imports, in the first instance, to implement the gigantic programmes of river valley and river basin development, hydroelectric generation projects, development of transport-rail, road and waterways, and diversification and diffusion of light consumer goods industries in the rural zones of the country, and eventually, imports of consumer goods, to implement standards of living consistent with the maintenance of full employment. It is idle to imagine that such heavy capital and consumption goods imports do not exert heavy pressure on the content and course of our exports, which will undoubtedly have their impact on the structure of national production-rural as well as urban, even if we are to ignore, for the time being, the enormous pull which 'inflated' imports have upon our 'exchange' markets, through heavy "under-valuation" of the rupee with sinister incidence on the stability of internal prices, production, employment and incomes which will clearly be reflected in the trend of our international trade-which would be the most powerful instrument for transmitting our economic instabilities to the other 'economic' zones of the world, in a desperate bid to maintain our export structure adjusted to our import exigencies. Such an evolution would inevitab-

ly lead to schemes of exchange stabilisation and tariff management to preserve regional structures of full employment—which would not lead to either ‘specialisation of production’, or global economic progress or to any higher standards of living among nations.

Considered in this light, international capital movements require as much regulation as inter-regional or international movements of labour, or “hot money” flights from one country to another in search for competitive ‘security’ and more profitable investment. It is indeed not an easy endeavour to try to import capital from abroad and neutralise the monetary and nonmonetary distortions which international capital movements would create in the exchange market, commodities markets and factor markets of the country which is importing capital. There is grave danger of international capital movement degenerating into the most powerful engine of economic expropriation of the backward countries, ultimately damaging the economic stability of the capital exporting country through heavy import of ‘unemployment’ though ‘forced imports’ to maintain ‘balance of payments’ from backward tracts with lower wage-standards and lower standards of living.

Naturally, international capital movements from the metropolitan zones of the world today to the backward tracts of the world postulate for regulated economic development of the backward tracts to maintain a structure of foreign trade which shall only fill up the gaps in the production-schedules of the metropolitan powers—and will not implement any adequate programme of full employment for the backward zones and will lead to a menacing pattern of ‘bilateral’ economic rela-

tionships which would prove more harmful for the maintenance of world economic stability and higher global standards of living than the economic colonialism of the nineteenth century.

Institutionalisation of such a pattern of international economic relationships through the mechanism of foreign trade between countries presents enormous difficulties. Even the International Monetary fund sponsored by the United National Organisation is vague on this fundamental aspect of international financial relationship though it provides for (a) "short-term credit to countries" to get over temporary discrepancies in the balance of payments, (b) "mechanism of adjustment to sustain long term structure of balance of payments, and (c) adequate machinery for consultation and research in regard to international problems,* as it happens to ensure "additional" facilities to provide only a second line defence in the exchange markets to member countries, and as the ability of a member to utilise the fund's facilities depends upon its gold-holdings.

It should be obvious to any serious thinker that there can be no economic stability in the world without a "liberal trade policy" among the nations of the world. "A liberal trade policy", we learn, "must be undertaken side by side with a programme of development, expansion and full employment throughout the world."† In this regard, it is not enough to merely declaim: "*we must enlarge both the domestic and the international market—the domestic market by a policy of full employment at home, and the international by a policy of development in the indus-*

* Cf. Hansen op. cit. pp. 54 et seq.

† Hansen Op. Cit P. 92.

trially backward countries”^{*} thus attempting to regulate the economic development of the backward countries to maintain full employment in the metropolitan zones of the world—a scheme of economic readjustment which would end by neutralising ‘full employment’ programmes in the metropolitan areas, since, as Sir William Beveridge has so firmly asserted, that “a country which aims at full employment, in making plans for international trade, must have regard not merely to the external economic policies but to the internal economic policies of those with whom it plans to trade : must consider *whether these internal policies are or are not likely to lead to stable full employment.*”[†] There can be no stable economic relationship between two countries, one of whom aims at full employment and the other at mere ‘economic development’ and a foreign trade to implement a pre-determined plan of international “division of labour” with the requisite adjustments in economic evolution. Such a scheme of bilateral or multilateral economic relationships is no proof against cyclical fluctuations in production, investment, consumption and foreign trade emanating from the backward tracts of the world and contaminating the full employment programmes of the metropolitan zones, through the mechanism of multilateral trade relations. Nor can such a scheme be either ‘fruitful’ or ‘stable’ or ‘free from fear.’[‡]

So long as the investment world does not shed some of its economic inhibitions, international capital movements have to be controlled and regulated, as otherwise they would cause great dislocation in the structure of

* Hansen op. cit. P. 92. Italics mine.

† op. cit. P. 225. Italics mine.

‡ cf. Sir William Beveridge, op. cit pp. 219 et. seq.

adequate international economic relations to maintain global "full employment" without which there can be no economic prosperity or political stability for the world. We must guard ourselves against the thesis that : "The economic justification for foreign investment is fundamentally the same as for domestic investment ; both are methods of increasing the real income which can be obtained from a given expenditure of human effort. *Under rational conditions, the increase in real income issuing from international investment accrues not only to the country in which the investment is made but to the country which makes the investment.* But the only way in which real income can be transferred is by a process which reduces the foreign contribution to employment *Such solutions are simply methods of creating employment by making it necessary to do more work to achieve a given standard of living.*" * Has not Sir William Beveridge said: "It is better to employ people on digging holes and filling them up again, than not to employ them at all; those who are taken into useless employment will, by what they earn and spend, give useful employment to others" †

It is imperative that we realised the full import of the statement : "Each country must work out its own full employment policy, but no great country should be without one. No great country should submit to defeat by unemployment."‡ There is no doubt that unless the capital-exporting country maintains "full

* Italics mine, Randall Hinshaw, Foreign Investment and American Employment, American Economic Review for May, 1946, P. 671.

† op. cit P. 147.

‡ Sir W. Beveridge, Full Employment, P. 234.

employment", India cannot import capital without serious dislocation to her full employment schemes of economic reconstruction, as capital imports from non-full employment zones might easily degenerate into the most powerful vehicle of economic expropriation with a serious danger of international trade sinking into the level of 'bilateral' clearing agreements which would not make for either higher standards of living for the country or for the maintenance of "full employment."

India today badly needs capital imports to forge her economic system into an integrated pattern of full employment evolution, even as Britain needs her vital international trade* to implement programmes of full employment at home. Capital imports have to be maintained by a fundamental change in the composition and trend of our exports, which might easily drive the economic system of the country away from the goal of full employment. This would involve three definite adjustments so far as India is concerned :-

- (a) Regulation of Capital imports together with control of fluctuations in the 'value' of the rupee.
- (b) Long-term agreements for the purchase of Capital Equipment for the development of the country's industry, agriculture, transport and full utilisation of natural resources through river-valley, and river-basin developmental projects, spread of irrigation, land-reclamation schemes, hydro-electric development schemes, gradual urbanisation of rural zones through spread of constructional schemes, et hoc genus omne.

- (c) Planned development of exports to maintain full employment in the country and full employment abroad-to prevent abnormal fluctuations in industry, trade and finance from distorting our full employment programmes.*

In order to sustain heavy capital imports, our country will have to maintain adequate reserve of international money in addition to the volume of exports necessary to pay for part of the capital imports. Our exports normally consist of "raw materials and other agricultural products. "Demand", for primary commodities, we learn, "is...generally inelastic with regard to price and at the same time, for raw materials in particular, liable to cyclical shifts because of variations in income, working stocks and speculative inventories in the industrial consuming countries."† Nor is the general economic position of India in regard to agricultural production such as to keep up a rising volume of export of primaries, because, "areas of relatively recent settlement such as the Argentine, Australia and Canada, with a more abundant supply of capital and natural resources in relation to the labour force, have made great advances in the technique of agricultural production."‡ Nor can India string up the productivity of her agricultural production so as to maintain "cost structure parity" with these relatively more recent and efficient primary zones, with the enormous population-pressure of her land resources which she has accumulated today, nor can she expect any adequate readjust-

* Cf. Sir William Beveridge, *Full Employment*, pp. 239 et seq.

† *International Currency Experience*, P. 192.

‡ *International Currency Experience*, P. 193.

ment between population and productivity to enable her to compete with the more efficient primary zones, nor will even effective implementation of full employment programmes of economic reconstruction give her an agricultural production which can generally maintain productivity-parities with those of the new primary zones of the world. Even of the newer primary zones, we learn : "Faced with a highly variable demand, these states have tended to make certain structural adjustments in their economy...Accordingly, the share of the chief traditional export products, in the total exports of such countries as the Argentine, Australia, Brazil, Bulgaria, Greece and Turkey has shown a marked decline."* Naturally, "they have sought to lessen their dependence on a narrow range of export products by diversifying their agricultural output." † because most of these countries are "one-crop countries"‡ a type of economic evolution to which India has not been an exception.

Maintenance of adequate 'export' in manufactures would undoubtedly lead to 'export of unemployment' with consequent tariff rigidities which the metropolitan zones would set up to preserve their full employment structures in tact, because, "Unlike Great Britain in the early nineteenth century, the countries where industrialisation is a relatively recent development have had the advantage of importing capital equipment from more advanced industrial regions either in immediate exchange for their crude products or by way of loans.

* Ibid P. 194.

† Ibid P. 194.

‡ Ibid P. 192.

Accordingly, the proportion of capital goods in total exports of the older industrial countries has increased.”* Thus in 1880 capital goods exports from the United Kingdom, Germany and the United States of America, which formed 26 per cent of total exports had risen in 1929 to 55 per cent, while the export of consumption goods had fallen in the same period from 74 per cent to 45 per cent. † Naturally, India, along with the more recently industrialised countries of the world, cannot maintain a high degree of exports of industrial consumers goods, as such a trend in the development of international trade would either neutralise full employment in the metropolitan zones of today or would be sterilised by tariff adjustments to prevent import of ‘unemployment’ in the older industrial countries.

It is needless to reiterate that the spread of industrialisation “is bound to affect the monetary as well as the trading relations between different parts of the world,”‡ which would be further complicated by the adoption of full employment by countries with enormous volume of “disguised unemployment” like India. Naturally so far as her relations with the rest of the world is concerned, India will have to pass through three stages of adjustment commensurate with her programme of economic reconstruction : (a) ‘bilateralism’ to secure the maximum advantages of international capital movements to finance and implement her enormous programmes of economic development; (b) “bloc multilateralism” within the British Commonwealth of Nations to strengthen her structure of external economic relations and

* International Currency Experience P. 196.

† Cf. Ibid. table on P. 197.

‡ Ibid. p. 197.

preserve her internal programmes of 'full employment' from being contaminated by world forces of economic evolution. (c) participation in global multilateral trading as an integral unit of an 'Imperial sterling Bloc' to preserve the stability of her economic system from the degradations of the instabilities of the other currency blocs till the world effectively implements the evolution of an international currency devoid of the vested economic and financial interests of the Great Powers who today control the institutions of the United Nations organisation.

World wide realisation of the truth of the assertion that, "a more even distribution of capital equipment in relation to labour and natural resources tends to benefit the real income and productivity, not only of the backward areas, but of the more advanced countries as well"* can only come in the wake of a global programme for full employment with the necessary changes in regional structure of economic adjustment to maintain full employment at home and abroad, in the backward areas as well as in the metropolitan zones of the world. India cannot wait till the whole world is converted to the urgency of implementing global programmes of full employment, because of the immensity of the problem of "disguised unemployment" which is contaminating her rural and urban standards of living, and which is bound to assume menacing proportion with every acceleration in the progress of her population.

The conclusion appears almost inescapable that India must enter into a scheme of 'bilateral trading' with a metropolitan power to maintain the requisite volume of

* International Currency Experience, P. 203.

capital imports to implement her programmes of economic development in order to liquidate the enormous volume of "disguised unemployment" which she has accumulated today and keep up a volume of exports essential to pay for her capital imports-spread, no doubt, over a series of years. The possibilities of world-wide expansionist 'multilateral trade' are thin in a global economic conjuncture which has progressively contracted the orbit of international markets both in primary articles and in manufactured goods, through diversification of industries in the erstwhile primary zones, which were unable to maintain their structure of exports in the inelastic market for agricultural commodities and industrial raw materials.

Thus, confronted by the complicate forces of economic adjustment prevalent in the world today and in the absence of adequate gold reserves to withstand the heavy pressure of capital imports into the country to implement her vast developmental projects, India must aim at developing bilateral economic relationship within the British Empire and build up her international trade as an integral unit of the sterling bloc, and go on progressively widening the sphere of her foreign trade without impinging upon the structure of full employment in the other countries of the British Common-wealth of Nations and of the rest of the world.

There is no use hiding the fact that economic stability and full employment can only be achieved by a high degree economic collaboration, where international trading becomes complementary instead of being competitive. "This means multilateral trading not through-

out the world but between a group of countries, sufficiently complementary to one another, but sufficiently alike in their economic policies, including the pursuit of full employment, to make it easy for them to work together It should be open to Britain, and countries which like her desire to follow the middle course of full employment in a free society to do so.”*

There is no doubt that India can better maintain her programme of full employment, if she keeps up her foreign trade relations only with those countries which maintain ‘full employment’ than with those zones whose economic systems are open to all the instabilities inherent in unregulated economic evolution, since her problem of ‘disguised unemployment’ cannot be solved without adequate implementation of full employment patterns of economic adjustment, and since the mechanism of foreign trade of a country is the best transmitter of international economic instabilities which India is hardly in a position to withstand.

The future evolution of foreign trade for India, as for all countries sponsoring full employment programmes of economic development must be complementary rather than competitive, and this will necessarily change the present structure of foreign trade as well as the trend of external economic relations, in such a way that “the participant countries will be enabled to enjoy the benefits of mass production and more extensive division of labour.”† India cannot enter world trade relations without serious damage to her structure

* Sir William Beveridge, *Full Employment* pp. 239-40.

† Haberler : *Economics of Blocs in Post-war Economic Problems*, P. 331.

of economic adjustments to maintain full employment since, as Sir William Beveridge has said, "world-wide multilateral trade may be likened to an elevator, speedy but capable of going out of action."^{*} Naturally, because of the inherent limitations of her natural resources and of her regionalised economic system in order to maintain high employment-rate, her foreign trade must progress along the three stages adumbrated above, and through all these stages of transition from 'bilateralism' to "bloc multilateralism" and from "bloc multilateralism" to "world multilateralism" as an integral member of the powerful 'Economic bloc' of the British Commonwealth of Nations, India can only achieve economic solidarity through the development of a complementary foreign trade, the contours of which can only be settled on completion of her programmes of economic development consistent with the maintenance of full employment, both at home and in the countries entering into economic relations with her.

* Full Employment P. 241

CHAPTER VII.

FULL EMPLOYMENT AND GOVERNMENT.

"No nation can hope to survive," wrote Professor Harold Laski twenty years ago, "no civilisation has ever survived in which there is a permanent division of its people into rich and poor."* "If you hold your ear to the ground," wrote Stuart Chase in 1942, "you can hear a muffled roar echoing around the world. . . . It is the voice of the people demanding security and an end to this paradox of plenty. It is the revolt of the masses asking for food which farmers let rot upon the ground or dump into the streams, This subterranean roar is the most powerful force in the world today."† "Many millions of families" says Alan Sweezy, "even in periods of prosperity, need more adequate food, let alone such things as washing machines, refrigerators, decent houses, medical care, recreation and the like."‡ In short, Dr. Hayek would put it, the world of today is "just interventionist chaos." §

(This impasse in world civilisation is the inevitable consequence of technical progress,) which under the imperious urgency of maintaining cost structure flexibility adjusted to the dynamics of price-formations in a competitive market for primary as well as secondary

* Grammar of Politics, P. 539.

† Stuart Chase: The Road We are Travelling, 1942, pp. 83-84.

‡ Secular Stagnation? in Post War Economic Problems, 1943, P. 75.

§ Collectivist Economic Planning, P. 24.

goods (has created unbridgeable gaps in the factor markets,) which has been responsible of the 'paradox of plenty'. Acceleration in the pace of technical progress generates progressive unemployment, not only of labour, but also of the other factors of production and the process of keeping the structure of production adjusted to the uncertain dynamics of competitive price-formations—particularly during periods of falling prices—generates a process of restriction of production to stabilise 'prices' at adequate levels and leads to artificial scarcity either through curtailment of production by agreement or through wanton destruction of industrial and agricultural products, to keep the structure of production undamaged in order to maintain the value of capital invested—by price-readjustments to absorb the abnormal discrepancies between the flow of goods into the market and the intensity of demand for them. It is thus that unplanned technical progress creates unbridgeable chasm between production and consumption, complicating the process of adjustment between the two by distorting employment volumes and unemployment rates at any given time.)

It is needless to emphasise that modern economic evolution of the world is betraying menacing symptoms of lack of an adequate synthesis between the different sectors of world economy, and has been responsible for creating conditions of "stagnation", in global economic dynamics. Thus we learn, "the thirties provide a striking example of 'stagnation' combined with highly dynamic economic and social development. Even in the best year of the decade the American economy failed by a wide margin to achieve full

employment of available resources. And yet technological progress continued at a rapid rate, productivity rose markedly ... The trouble again was not that there was *no* investment, but that investment was not enough to keep income at a level that would fully use the country's tremendous productive resources."*

If in the nineteenth century, the fundamental economic problem was that of adjusting the scale of production and the rate of investment to an everwidening global 'market' for producers and consumers goods, the problem of the present century is that of stabilising a fast contracting 'market' for producers and consumers goods to the 'scale' of production which technical progress has set up in industry and agriculture and of balancing the pace of investment for "capital which has been growing at an enormous 'speed' in the last fifty years of global "economic" progress. This menacing divergence between the rate of growth of 'capital' and the pace of investment has generated an economic crisis of global magnitude which 'capitalistic' economic evolution has failed to solve, since technical progress of the world, which has created abnormal 'unemployment' in the factor markets; has been, paradoxical though it may sound, unable to *stimulate* investment. The world has reached a state of 'economic' and 'technical' progress when, we learn, "it is impossible to stimulate anything beyond the limit of what is there to be stimulated. With a basic deficiency of investment outlets, no amount of social and political 'coddling, of investors will produce

* Alan Sweezy. *Secular Stagnation? Post War Economic problems*, P. 69.

enough investment expenditure to keep income and employment at satisfactory levels for any appreciable length of time”*, without increasing the community’s propensity to consume, a process of economic adjustment which would postulate for “full employment” of the community’s resources, which cannot be achieved without adequate neutralisation of the dynamics of ‘technical progress’ and ‘capitalistic’ type of production and exchange which have been responsible for creating this sinister ‘paradox of plenty’ and the vast zones of economic distress all over the world. The crisis in the economic evolution of the world generated by phenomenal improvement in, what Professor Von Mises has called, “technical methods of production” which have gone on progressively widening the frontiers of ‘unemployment’ of all national resources, could only be resolved either by regulation of production to adjust productivity to the dynamics of a contracting structure of investment opportunity, which would have the effect of neutralising technical advance, or by wanton destruction of ‘material’ to maintain a dynamic structure of investment opportunity consistent with the pace of capital-creation—which can only be achieved in two ways: restriction of production of ‘goods’ to maintain the ‘marginal productivity’ of capital undamaged through sinister regulation of technical advance or by wanton destruction of producers and consumers goods which characterise the pattern of economic adjustment in a period of ‘over-production’ with collapsing structure of prices or a ‘period of war’

* Alan Sweezy : loc cit. P. 81.

which alone can stimulate investment while it lasts.* Thus of an essentially capitalistic country like America we learn : "the great depression signalised the major break in economic development. Prior to that time . . . opportunities for private investment had..been adequate to maintain reasonably full employment in a reasonably high level of economic activity with, of course, fairly frequent depressions...But 1929 marked the end of this era. Thereafter we might expect to suffer from a secular stagnation due to chronic deficiency of investment opportunity as well as from the deep depressions associated with cyclical fluctuations changes in technology have been of a predominantly 'capital-saving' character."† Another source tells us : "By the 1920, this country had also developed *a surplus of capital over home requirements and had joined the search for new outlets abroad*. Relatively speaking, the openings in still undeveloped parts of the world were much less abundant than they had been in the nineteenth century. If it had not been for the temporary weakening of the accumulative power of England, France and Germany, *and the demands of war reconstruction, the discrepancy between the amount of capital seeking investment abroad and the available outlets would have showed up even sooner than it did.*"‡

It is difficult, indeed, for a world caught in the grip of technical revolution in the processes of

* "Except during the war, I doubt if we have any recent experiences of a boom so strong that it led to full employment"
J. M. Keynes, *General Theory*, P. 322.

† Prof. Richard Bissell : *Post War Economic Problems*, P. 83.

‡ Alan Sweezy in *loc. cit.* P. 80.

production, to recapture the economic climate of the 19th century by liquidating 'capital-creation' processes in an ever-widening sphere of profitable investment, without further accelerating the "paradox of plenty" which the economic evolution of the world has created today. The cultural evolution of the world in the past century has failed to create a world "community in which men and women have value,"* and set up a world economic system which was more concerned with adjusting the structure of production to the dynamics of an unplanned market and finding out new avenues of investment for the capital which the process of competitive production and unregulated consumption went on creating in the metropolitan zones by distorting price formations and structures of productivity in agricultural as well as industrial production, rather than with the problems for adequate conservation of regional resources—material as well as human. New sources of investment are indeed, hard to find in a world that is fast emerging into economic and technological maturity. Nor will the programmes of postwar development of backward zones of the world open up adequate channels of investment for the capital which has been created by technological advance and the phenomenal disparity between production and consumption of the unplanned market economy of the world to day, in the metropolitan zones of the world. "It is possible", we are told, "that the rate of development of economically 'backward' countries, particularly in Asia, will be faster after this war than after the last and that *Western capital will be able to secure an important role in it. But*

* Sir W. Beveridge, op. cit. P. 121.

*there is little ground to expect anything approaching in relative magnitude, the outlet English capital found in America in the nineteenth century,"** particularly when we note that the rate of 'capital' creation has been enormously accelerated in the present century than in the previous centuries, because of the fact that "changes in technology have been of a predominantly 'capital-saving' character; that is to say, they permit the maintenance or expansion of output with a smaller plant and fewer machines, i. e., smaller capital costs than formerly."†

Obviously, the problem of maintaining investment-balance for the enormous volume of 'capital' which technological progress incessantly releases on the world is the biggest problem of economic administration in the world of tomorrow, and the problem assumes sinister proportions when we observe that it can only be solved by either of two expedients: (a) finding out fresh avenues of investment to maintain a rising spiral of 'investment' for a dynamic capital structure which can only be sustained by an expansionist economic policy which would ultimately lead the world into periodical 'escapes' into wholesale destruction of 'capital' through gigantic wars to maintain *profitable investment-rates* in a society in which, as Professor Laski would put it, property comes "to dominate the State," and economic colonisation of the backward tracts by the metropolitan powers with adequate adjustment in the productivity of metropolitan production, through further acceleration of technical

* Alan Sweezy, *Post War Economic Problems* P. 80, *Italics Mine.*

† Richard Bissell, *Postwar Economic Problems*, P. 86.

progress to widen the consumption propensities of the world population, not through 'full employment' at higher wage-standards, but through suppression of 'costs of living' by sinister management of agrarian and industrial cost-structure which would further release additional 'blocs' of unemployed 'factors' on the economic system and precipitate menacing cyclical fluctuations in economic activity and (b) through effective management of 'technical progress' to bring world economic evolution into an integrated pattern of global economic collaboration with 'full employment' processes of economic evolution which would, undoubtedly, sterilise productivity of regional economic system in order to maintain the forces of economic and technical advance properly adjusted to effective conservation of all regional resources, natural, as well as, human. It means, in other words, control of the "capital" creation processes consistent with the maintenance of savings-investment balance to sustain a full employment pattern of world economic evolution, whatever the cost of the process of adjustment, to the world in the eventual reduction of the productivity of the global economic system, because, as the late Lord Keynes postulated, "in contemporary conditions the growth of wealth so far from being dependent on the abstinence of the rich as is commonly supposed, is more likely to be impeded by it,"*—a situation which is further complicated by the enormous capacity of a progressive technological system to accelerate the process of creation of "accumulation" which would so distort the saving-investment ratio that no apparatus

* General Theory, P. 373.

within the orbit of capitalistic administration of global economic resources could bring them into a state of balance, without which the paradox of plenty would go on widening the frontiers of general economic distress in the world.

This crisis in world economic evolution was predicted as long ago as 1887 by Alfred Marshall when he observed: "It seems to me that *the great economic feature of this age*, more important than every other fact put together, *is that the amount of capital is increasing many times as fast as that of population.... In spite of all the inventions....making new uses for capital in the form of machinery and in other ways, this vast increase forces down the interest that can be got in business....I do not mean the growth of credit, I mean the growth of things, the actual excess of production over consumption. I do not see any necessity at all why interest should be more than 2 per cent a century hence.*"*

It is needless to emphasise that the process of "capitalistic" investment in the last century has created "the giant social evils of Want, Disease, Ignorance and Squalor", † and a global attack on these 'giants' can only be implemented by progressive balancing of the rate of savings with the pace of investment and drastic control of the course of 'investment' which, distortions in the rate of interest under individualist type of disposal of productive resources incessantly creates. This implies, not mere superficial changes in the structure of distribution in order to stimulate consumption to maintain investment opportunity equated with the

* Alfred Marshall, official Papers, P. 49. Italics Mine.

† Sir William Beveridge, op. cit. P. 31.

dynamics of "capital creation", but adequate synthesis between capital-creation processes and the structure of investment opportunity to bring an end to this epoch which has generated the 'paradox of plenty' and widened the penumbra of general economic distress in the world. We must not commit the error of, in the Keynesian terminology, "laying too much emphasis on increased consumption at a time when there is still much social advantage to be obtained from increased investment....I am myself impressed by *the great social advantage of increasing the stock of capital until it ceases to be scarce*. I should readily concede that the wisest course is to advance on both fronts at once. *Whilst aiming at a socially controlled rate of investment with a view to a progressive decline in the marginal efficiency of capital, I should support at the same time all sorts of policies for increasing the propensity to consume....* There is room....for both policies to operate together, *to promote investment and, at the same time, to promote consumption*, not merely to the level with which the existing propensity to consume would correspond to the increased investment, *but to a higher level still*,"* because "it is, unlikely that 'full employment' can be maintained...with the existing propensity to consume."†

It should be obvious that adequate adjustment between consumption-propensity, which is low today, and investment-rate of capital which is also low when compared to the rate of capital-creation can only be adequately implemented by an acceleration of consumption propensity which would stimulate investment by exerting heavy upward pressure on price-structures by

* J. M. Keynes : General Theory, pp. 324-25. Italics Mine.

† Ibid.

stimulating sectional demand curves. Consumption propensity can be increased in two ways: (a) by management of income-structures through drastic changes in the pattern of 'distribution' implemented by raising wage-standards which would distort cost-structures in industry and sterilise investment, while it may keep up certain 'prices' which would lead to a pattern of investment different from a "socially controlled rate of investment" and recreate the problem of saving-investment balance, and (b) by bringing a wider range of articles within the general consumption-schedules through readjustment of prices, supported by reciprocal adjustments in the composition of industrial cost-structures which can only be effected by adequate rate of technical advance to keep sectional productivities 'properly equilibrated with the dynamics of lower price-formations reinforced by control of investment necessary to keep up a progressive structure of '*social priorities*' in production.

It is only thus that we shall be able to "reduce .. the evil of Inequality, at the points where it is more harmful ... and a more equitable distribution of both material resources, so that they are spent in place of being saved, and of leisure, so that leisure replaces unemployment,"* in other words, it means that the incidence of heavy capital creation, will have to be spread out over an integrated structure of production to sustain a dynamic pattern of social priorities to keep up investment-rate equilibrated with the pace of savings in the world ; in other words, an orderly "demobilisation" of the *capitalistic pattern* of economic administra-

* Sir William Beveridge in op. cit. P. 31

tion to achieve the requisite degree of balance between production and consumption necessary to sustain full employment of all factors of production through effective programmes calculated to raise consumption-propensities of world populations to a level where production processes can be stimulated to maintain an adequate pattern of investment opportunity to the 'capital' which technical progress incessantly creates. This cannot be achieved without adequate synthesis between technical progress and the dynamics of production to maintain full employment patterns of economic adjustment.

Such an economic synthesis between savings and investment would fundamentally change the contours of private investment, since stimulus for private investment can only come from shifts in relative 'profitability' of investment which would, in a regime of general economic stabilisation, release enormous forces of technical advance to maintain high degree productivity in all branches of production and would create discrepancies between savings and investment which would restart the vicious circle of economic evolution which the world is today attempting to escape through programmes of full employment.

Naturally full employment pattern of synthesis of economic evolution will have to proceed along routes of economic advance which will not create savings-investment problems by over-stimulation of savings or over-stimulation of investment, through technical advance. As Hansen has put it, "There is plenty of work to do. We need improved manufacturing equipment to produce more and better goods at lower prices. We need to carry on extensive research in the laboratories... to create new products and develop new

processes. We need to rehabilitate and modernise our transport system—by land, water and air. We need continued advance in the techniques of production, distribution and transportation; in short, in all those elements that enter into a higher standard of living. We need an enrichment of the material and spiritual resources of our way of life,”* though how far such a programme would “vitalize and invigorate private enterprise”† is a matter on which judgement has to be reserved till the contours of economic society, which has to maintain the requisite synthesis among all progress-ratios, are finally settled.

Synthetisation of the dynamics of investment into a coordinated pattern of economic development to liquidate the “paradox of plenty” and adequately implement full employment of man-power and material resources without jeopardising the main springs of technical advance essential to maintain a progressive pattern of cultural evolution would necessitate a three panelled division of production into (a) “urgencies which cannot be withheld”, (b) “Commodities . . . which give life the flavour of beauty and comfort,” and (c) “commodities which supply a genuine quality to a portion of mankind”,‡ or, the adjustment of production schedules to an integrated pattern of “social priorities”§ which full employment consumption - propensities generate and sustain, in order to reduce undue fluctuations in demand which is “probably or certainly inevit-

* Alvin Hansen, *Post-War Economic problems* PP. 14–15.

† Hansen.

‡ Cf. Harold Laski's chapter on “Economic Institutions”, in *Grammar of Politics* pp. 435 et seq.

§ Cf. Sir William Beveridge, *op cit* P. 149 et seq.

able in an unplanned market economy"* where the dynamics of cost-price margin happens to be the governor of the rate and course of investment.

"There is an inherent instability in the relationship between consumption and investment", we learn, "a steady rate of capital formation presupposes in general a certain *increase* in consumers' demand for the final products. When that rate of increase slackens, investment activity tends to decline. *When consumer's demand stops increasing investment may actually fall to zero. The result is unemployment in the capital goods industries, leading to a fall in consumers' spending and accumulative spread of depression.*"† Obviously, qualitative and quantitative shifts in consumers' outlay incessantly create divergences in the savings-investment balance by distorting investment rates and cause cyclical fluctuations in economic activity with cumulative incidence on employment-rates and the composition of income-structures and rates of saving, producing serious "gaps between decisions to save and decisions to invest".‡ Naturally, the thesis is inescapable that if "private consumption outlay . . . might fail in practice to absorb them (all the productive resources of the country) because it would be directed without regard to the available labour and the need for stabilising investment; it might be directed to purposes of low social utility which can be attained only by common action,"§ *private investment also would neutralise forces making for stabilisation of investment, and "might be directed to purposes of low social*

* Sir William Beveridge, op cit P. 108.

† International Currency Experience P. 201 Italics mine.

‡ Sir William Beveridge Full Employment, P. 101.

§ Sir William Beveridge op. cit. P. 151.

utility" and fail to "secure many vital purposes which can be attained only by action," since private investment as well as private consumption outlay are governed by the structure of relative scales of productivity and valuation as determined by price formations in an "open market" for 'factors' and 'goods'.

The only escape from the sinister spiral of economic "progress", where technical progress incessantly creates enormous divergence between investment opportunity and capital creation and distorts the composition of consumption-propensity of the population, leading to the mad stampede for 'sources and markets' which inexorably leads to "war" in an attempt to stabilise production in a social structure where property has come to dominate the State, lies in a comprehensive coordination of all 'economic-forces' in order to reduce the paradox of plenty. There can be no better way of laying a solid foundation for world peace in the momentous days ahead than by synthetisation of all progress rates to reduce the penumbra of economic distress which is invading the economic administration of world resources today. That is how the 'subterranean roar' of the masses which is "the most powerful force in the world today"* can be hushed and harnessed with the task of reconstruction of global economic life where international economic collaboration may become the most powerful vehicle for a global economic cooperation which can bring prosperity to every nation on the earth.

This task is, it must be admitted, not an easy one; it involves slowing down of the tempo of technical

* Stuart Chase. op. cit.

progress, controlling the dynamics of price-formations, raising consumption-propensities of diverse populations to stabilise production, while maintaining the regional frameworks of cultural evolution undamaged, and reducing to a pattern of global stabilisation, all the forces making for the march of human civilisation-economic, social and political, and, if we shall have achieved the great endeavour of stabilisation of global economic development to maintain an adequate pattern of economic harmony among nations and among the vast sections of population in each great community of the world, there could be no better contribution to rebuilding a new world order in which war shall have been permanently banished, and the grim shadow of the Malthusian Devil lifted for ever from the economic firmament, where the dynamics of world population is adequately balanced by harnessing the immense capital creation capacities of a progressive technological system to the fabrication of goods and services which would raise the standards of living in all parts of the earth, and liquidate the sinister "paradox of plenty" which has gone on creating savings-investment disparity and the menacing rhythm of cyclical fluctuations in economic activity which have grimly presided over world economic evolution for the past century, and a half of industrial and agricultural 'revolution'.

The foregoing pages must have amply demonstrated that programmes of economic reconstruction for India with a view to implement full employment of her manpower and material resources must try to obviate all the economic ills which are incidental to an economic system, which has no provision, within its framework of administration, for an adequate synthesis

of all forces of economic evolution. Obviously, we cannot recreate, in this country, an economic system on the pattern of the economic evolution of the metropolitan powers of the world today, without regenerating problems of saving-investment disparities with the attendant evils of the Residuum and 'unemployment' of all factors of production in an intensified drive for maximum productivity to keep production equated with the shifting dynamics of an unplanned market : that is the surest path of national economic annihilation in a bewildering labyrinth of economic maladjustments which high degree technical progress creates by widening the chasm between the processes of capital-creation and the pace of investment opportunity, where foreign trade becomes the most menacing instrument for shifting regional economic discrepancies to the other economic systems of the world, and where artificial acceleration of investment opportunity sows the seeds of 'war' by flinging countries into a gigantic stampede for sources and markets.

It should be obvious, then, that savings-investment balance postulates for two processes of economic adjustment : (a) regulation of investment and direction of the structure of investment opportunities, with adequate control of the dynamics of technical progress so that it will not create erratic fluctuations in the relation between savings and investment, implemented by conditions for increasing the propensity to consume of world's populations, consistent with full employment of all factors calculated to reduce the zone of economic distress; and (b) stabilisation of 'markets' through a comprehensive control of all price-formations to maintain an integrated structure of economic evolution.

The problem of economic rehabilitation to maintain full employment for a subsistence zone like India where 'unemployment of factors' is generated by lack of an adequate degree of technical advance is similar to that of the metropolitan powers whose technical advance has reached a plane of economic evolution where 'unemployment of factors' is inevitable, if productivity of all the units of production is to be maintained adequately equated with the capital creation processes of technical advance and with the consumption-propensities of an unplanned market for goods and services. We have observed how unintegrated industrial development is no panacea for the enormous volume of disguised unemployment which acceleration of population-pressures on the land resources of the country has created today : nor is the world economic conjuncture propitious for reconstruction of the country's foreign trade to maintain full employment for four hundred million people with rising standards of living, which would, even with the progressive spread of modern technology, be quickly neutralised in a mad stampede, in the other parts of the world, for technical advance and tariff regulations, to maintain cost-structure parity between regions of high wage-standard and low wage standard countries like India and China, should these conceive of foreign trade as a vehicle for implementing their programmes of economic expansion and would end by creating a degree of 'unemployment' which would wipe out all programmes of economic reconstruction through a terrific war of cost-structures aided by relentless progress in industrial and agricultural technology which would release enormous 'capital' on the world and precipitate 'economic distress' of a

magnitude which the world has not even dreamt in its mad pursuit of investment opportunity in the last hundred years. It is in this sense that the Keynesian dictum, "In the long run we will all be dead", assumes menacing import.

Naturally, the programmes of economic reconstruction adumbrated in the foregoing pages have to be very cautiously implemented in our country, if we are to avoid the menacing consequences of enormous 'capital creation' which technical progress would release on our economic system with severe cyclical fluctuations in economic activity which are inherent in a competitive scheme for the disposal of factors of production under the influence of competitive price-formations in an unplanned market. Such an intensive programme of economic stabilisation implies the setting up of self-sufficient economic zones with an adequate development of inter-regional complementary types of economic relations with correlated regulation of private investment processes which might otherwise create abnormal divergences between capital-creation rates and investment opportunities, and we should not be afraid of the enormous structural changes in the economic system of the country and the machinery of public administration, which effective implementation of full employment of man-power and material resources would render imperative.

It is urgent that we realised that there can be no effective full employment in our country without adequate regulation of economic evolution of this continent to preserve proper synthesis of all progress ratios on a continental scale to prevent abnormal forces of economic maladjustment from contaminating regional programmes

of economic evolution to effectively implement full employment of all regional resources; and, such a programme of continental economic co-ordination, with a view to the development of adequate structure of complementary economic relations, would necessitate the emergence of an all-comprehensive economic policy, which will integrate regional programmes of economic development into a full employment programme of continental economic evolution which would make the institution of a Supreme Economic Council for India in which economic experts would formulate and regulate policies for general economic stabilisation consistent with regional economic development projects imperative. and prevent the emergence of economic forces which would, in any way, neutralise regional programmes of full employment.

There is no use if the Supreme Economic Council is a mere advisory body for the Supreme Executive Council of the Country; it must be vested with ample powers of control over the entire economic system of the country commensurate with its imperious task of maintaining programmes of regional economic development adequately integrated with the dynamics of full employment for the country and, for purposes of facilitating adequate execution of the economic policies in regard to inter-regional trade, inter-regional monetary relations, interregional transport relations, inter-regional mobility of labour, inter-regional production schedules, inter-regional investment programmes, and inter-regional price policies, the Supreme Economic Council must include members of the Government of the day in an *ex-officio* capacity, so that its decisions may be quickly executed, without being subjected to the

delaying processes of usual official routine of reporting and legislation, since delay in matters of economic concern might easily lead to neutralisation of programmes of full employment through subterranean activities of vested interests, as the experience of the country in the war years of 1939--45 in regard to 'black markets' has amply proved.

As regards the composition of this Supreme Economic Council, it must contain, besides economic experts, technical experts like transport experts, banking experts, industrial experts, agricultural experts drawn from the various departments of the Government as well as from public life, with a certain duration for the Council for a period of at least five years to maintain continuity in economic policy and in every matter pertaining to special regional problems, regional representatives will have to be coopted though their opinion may not be binding upon the deliberations of the Council. This Council should decide about matters like (a) the site for developmental projects like river-valley and river-basin projects in so far as they affect inter-regional programmes of economic development, (b) coordination of inter-regional transport; (c) coordination of inter-regional investment policies; (d) coordination of interregional trade and labour policies; (e) coordination of inter-regional price-control programmes; (f) distribution of power resources between regions, particularly in regard to the new projects for hydro-electric development; (g) control of inter-regional movements of labour, (h) development of public health and urban facilities in so far as they relate to inter-regional problems in regard to supply of power, water-

flows, et hoc genus omne ; (i) adjustment of inter-regional trade particularly in regard to special regional industries – to give some of the major problems which shall have to form part of the duties of the Supreme Economic Council.

It is necessary that this Supreme Economic Council should have adequate powers to call for any statistical information in regard to any problem which it has to tackle at any time; and in order to facilitate work of the Supreme Economic Council, there must be a Statistical and Research Bureau attached to it which can coordinate the statistical information which Regional Bureaus of Statistical Information may be in a position to supply and this Central Statistical Economic Research Bureau must contain not only a panel of Statistical experts but also economic experts and technical experts in industry, agriculture, banking, transport and commerce, so that they might facilitate the work of the Supreme Economic Council. Similarly separate panels are necessary, for every branch of economic development, which are attached to the Supreme Economic Council like Central Bureau of Transport, Central Board of Trade, Central Board of Agriculture, Central Board of Industry, Central Board for Labour, Central Board of Price-Coordination, to mention some of the outstanding bodies which would have to be set up as auxiliary Bureaus for the Supreme Economic Council. Some of the existing Departments of the Government of India may be reconstituted and expanded to serve as expert bureaus attached to the Supreme Economic Council.

It is urgent to realise that general economic stabilisation for India cannot be implemented without adequate

coordination of regional economic stabilisation programmes to maintain full employment, and, in this regard, the powers of the Supreme Economic Council should be coextensive with the nature of general economic stabilisation programmes for the entire country.

For purposes of more efficient economic administration of the country, it is essential that the country be split up into Economic Provinces with regard to the degree of economic self-sufficiency that can be attained, and in this regard the existing Provinces can hardly be said to be adequate. Each Economic Zone that can thus be set up will have to have a Zonal Economic Council with power to stabilise economic evolution of the Zone concerned with the Zonal Economic Council and separate boards for each department of economic development, with powers to coordinate inter-regional economic evolution in all its multizonal branches of activity like, agriculture, industry, transport, power-development, banking and investment, labour, inter-regional economic relations, technical training and general education, public health and urban development, price-policies, labour-policies, inter-regional migration and problems connected with the maintenance of zonal economic stabilisation programmes

In any adequate programme of general economic stabilisation, the most important part will have to be played by Regional Economic Administrations as they form the base of the Federal system of Economic Administration. For this purpose each existing province will have to be split up into convenient Economic Regions which shall have urban and rural units consistent with the supreme urgency of maintaining regional economic self-sufficiency as far as it is practicable. It is here that

adequate provision will have to be made for intensive research into the possibilities of developing regional resources to maintain an adequate structure of regional full employment with efficient provision for economic administration of the region to integrate all processes of regional economic evolution to maintain a progressive standard of life for the urban as well as rural population, with adequate adjustment between agrarian and industrial population-pressures and development of inter-regional trade to maintain rising standards of life.

We must realise that in any programme of continental economic stabilisation to maintain full employment, it is not the machinery that may be set up to run the programme, but the policies which have to guide programmes of economic evolution to implement full employment of man-power and material resources of the country to keep up rising standards of living for the four hundred million people of this country, which are of overwhelming importance.

General economic stabilisation can be attained through any of two processes of economic adjustment : (a) either control of price-formations in primary and secondary markets and using the price-mechanism to stimulate investment opportunity or to vitalise savings, which implies a very delicate control of price-formations with adjustment in relative price-fluctuations to prevent misdirection and distortion of the pace of investment; (b) or through regulation of investment through control of banking and the general money-market of the country, and either of two processes of economic stabilisation would necessarily postulate for drastic control of technical advance and inter-occupational mobility of labour which might, other-

wise, generate forces which would destroy the structure of economic stabilisation.

Necessarily, no programme of economic stabilisation can be implemented without certain institutional changes in economic as well as social structure of the region with concomitant shifts and changes in the governmental machinery. Thus adequate adjustment between savings and investment would imply regulation, if not elimination, of private control over the means of production and exchange and would postulate for institutional changes not only in the existing pattern of private property but also in the money-market where disturbances in the composition of relative price-formations get abnormally accelerated to distort the ratio of relationship between the volume of savings and the pace of investment through transformations in the credit super-structure which they can build to withstand oscillations in the liquidity preference of an economic system which is caught in the grip of cyclical fluctuations. And, as long as private investment and the money-market reacting to the dynamics of investment which is directed by the pace of technical progress go on disturbing the structure of balance between saving and investment, economic stability cannot be achieved; and, in the absence of economic stability, cyclical fluctuations in economic activity cannot be avoided, nor can full employment be reached as the goal of economic evolution; which would involve the indefinite prolongation of the 'paradox of plenty' which has created mass discontent all over the world. If it is true that "planned outlay is to be preferred to unplanned outlay", * and, it is

* Sir William Beveridge op cit P. 150.

also true that full employment postulates for an adequate structure of total outlay to implement adequate conservation of all national resources—manpower as well as material—the argument for drastic control of private investment becomes imperative; since private investment will not allow itself, under all circumstances, to be “directed by regard to social priorities”,* and would have to be supplemented from time to time by public outlay sufficient to maintain an adequate structure of total outlay to sustain full employment. It would be far easier to abolish private control of the means of production and private investment outlay in a country like India where private investment is yet young and highly concentrated, than in a country like England or the United States of America.

Naturally, full employment for India would postulate for a two-fold programme of economic administration, involving, not only drastic control of price-formations in primary as well as secondary markets, but also effective control of investment process through control of the money-market and raising banking and financial services to the level of public utilities rather than private business in search for profitable investment of the enormous flow of savings which comes into the money-market; it would also imply severe regulation of consumption through readjustment of production into “essential and special”, to maintain the requisite degree of regional self-sufficiency consistent with the productivity of regional structures of production and control of inter-regional movements of goods which might generate abnormal fluctuations in price-formations and set up ‘black markets’.

* Sir William Beveridge op cit.

In the first years of the general economic stabilisation programme, we shall indeed be confronted with the basic ailments of a "planned economic evolution" and shall have to face a certain impairment of productivity and divergences in cost-structure parity with the other industrially and agriculturally progressive zones of the world.* This is inevitable in the initial years of sustaining economic stabilisation programmes to maintain full employment, till we succeed in adjusting the capital creation capacities of technical progress to the investment opportunity of full employment economic evolution, without impairing the structure of balance necessary to maintain full employment of all factors within any country, and keep up certain external economic relations which are essential to maintain a rising standard of living in the country.

It is here that the responsibility of the Government in India to maintain a structure of economic relations in the country to maintain full employment with progressive standards of living for four hundred million people, and, at the same time, guaranteeing adequate flexibility to the economic system to absorb a growing population, assumes enormous magnitude, since it involves delicate integration of 'incompatible' and apparently unadjustable ratios of technical and economic advance. It is not at all an easy feat to attempt to create and sustain an economic system which shall absorb 'stabilisation' programmes and yet maintain cost-structure parities with a world which has put its faith in technical advance and the economic dynamics which it generates and accelerates; and where 'capital creation' processes of unplanned economic evolution drive the

* Cf. Dr. Hayek in *Collectivist Economic Planning*, P. 241.

national economic system either to stop technical progress or seek investment opportunities in a world which cannot maintain, global total outlay to guarantee 'full employment' for the volume of savings which uncontrolled technical progress incessantly releases on the global economic system.

There is no royal road to the dissolution of the 'paradox of plenty' which has today haunted both subsistence zones, primary zones, as well as metropolitan zones of the world, except by rescuing the economic system from the clutches of 'technical progress', not by complete elimination of technical advance, but by adequate regulation of the 'capital creation' process through regional programmes of economic stabilisation to maintain "full employment" of regional human and material resources. Strange though it may seem, mere "spread of capital equipment and modern techniques throughout the world", as Hansen*believes, will not solve the 'paradox of plenty', though it might reduce the intensity of economic distress in the metropolitan zones by shifting the 'paradox of plenty' to the less developed tracts of the world, but it offers no long-range solution of the 'muddle' which technical advance has created by generating menacing discrepancies between the pace of production and the rate of consumption, creating cyclical fluctuations in economic activity which would accelerate themselves further, if the world does not firmly set out to integrate all the progress ratios into an adjustable pattern of economic relations.

Naturally, subsistence zones like India will have

* Vide op. cit P. 31.

to guard themselves against this menacing spread of "capital equipment and modern techniques" from economic systems which are anxious to find adequate investment opportunity for the enormous capital which unregulated economic evolution and uncontrolled technical advance have created in the metropolitan zones of the world; and in the long run, wholesale copying of metropolitan techniques of production in the backward tracts of the world would recreate the giant evils of Ignorance, Want, Squalor and Poverty, and we must strain every nerve to maintain an integrated pattern of economic evolution which shall conquer these giant social evils, even though it might involve a certain degree of reduction in technical advance and impair the productivity of the national structure of production, and might imply a foreign trade which shall be reduced to mere "complementary" dimensions

The task of general economic stabilisation for India will have to be the special concern of the Government of the country since no other institution can possess adequate executive authority in regard to adequate regulation of economic evolution to maintain full employment. This will naturally postulate for certain institutional changes in the Central as well regional public administration commensurate with the gigantic task of price-stabilisation and investment adjustment programmes essential to maintain an integrated pattern of economic evolution for a sub-continent like ours, and a panel of Economic Institutions will have to be set up to guard regional systems against misdirection of productive resources and to secure 'capital goods' essential to sustain the gigantic reconstructional programmes, adumbrated above, to raise regional 'productivity' to

full employment levels and to sustain rising standards of living for the four hundred million people of our country ; and to control the money-market against undue fluctuations arising from heavy capital movements as has been explained in the course of the book earlier.

We cannot underestimate the implications of general economic stabilisation, for a country with a subsistence economy like India, to maintain full employment of all resources-human as well as material. It cannot be sufficiently emphasised that in regard to the main programmes of future economic evolution, India cannot blindly copy the methods of economic evolution which have prevailed in metropolitan zones of the world like England, America, Germany and Japan, if she wants to maintain her economic integrity from being contaminated by the emergence of vast zones of economic distress which unregulated alliance between technical advance and industrial and agricultural production has created in these countries.

India is fortunate in having the opportunity of implementing full employment at a stage of world economic evolution, when economic knowledge has given us adequate idea of the menacing problems which unregulated economic evolution, complicated by uncontrolled technical advance, has created in almost all metropolitan zones of the world, and take an invaluable lesson from the economic apprenticeship of the metropolitan zones of the world today.

Compared with the magnitude of their problems, the problem of economic reconstruction for India

will appear fundamentally easy of solution. We are not required to dismantle an economic structure of baffling complexity in order to prepare the country for a full employment economic evolution; we need not face the problem of dissolving the giant "paradox of plenty" which technical advance and competitive administration of productive resources have created in the metropolitan area of today.

Naturally, future, economic evolution in India must be complementary, not competitive; the economic evolution of the world has amply demonstrated the fundamental weakness of a competitive system of economic advance even with the aid of vast agglomerations of 'capital' resources, and has proved that competitive evolution is the surest path to wide cyclical fluctuations in economic activity, generating steep booms and deep depressions which create a futile sense of economic insecurity which would, in the ultimate analysis, destroy the very foundations of a civilisation of peaceful prosperity for the masses of mankind. Nor are world conditions propitious to sustain the heavy investment processes of 'capital resources' which technical advance, under the impetus of individualist production, creates without plunging nations into periodic conflict with each other in a relentless struggle for discovering new investment opportunities and markets for their goods and services. The inexorable nemesis of economic expansion can only be universal disaster—not only economic, but also social and cultural.

It is needless to emphasise that world economic evolution in recent years has piloted the metropolitan zones into a crisis which presents formidable resistance to accurate understanding. As Dr. Hayek would put

it : "One thing, however, seems to emerge from the discussions of the last years with incontrovertible force: that to-day we are not intellectually equipped to improve the working of our economic system by 'planning' or to solve the problem of socialist production in any other way without very considerably impairing productivity ; what is lacking is not 'experience' but intellectual mastery of a problem which so far we have only learnt to formulate but not to answer."* In a similar vein Wicksteed wrote : "To mitigate the penalties of failure, without weakening the incitements to success, and *to effect an insurance against the disasters incident to advance, without weakening the forces of advance themselves, is the problem which civilisation has not yet solved. No wonder, for it is only just beginning to understand what that problem is, and to recognise the 'deeply inherent limits' within which it must be solved.*"† Wicksteed very nearly postulated a solution by inference when he observed : "When we understand that local distress is incidental to general progress, we shall not indeed try to stay general progress in order to escape the local distress, but we shall try to mitigate local distress by diverting to its relief some portion of the general access of wealth to which it is incidental."‡ But where technical advance has created the mysterious 'paradox of plenty' the way out of the paradox must be lie in an adequate synchronisation of technical advance with the pace of general prosperity, which the Keynesians saw as a balance between the rate of savings and the pace of investment, and modern economic thought stresses as the mainte-

* Dr. Hayek in *Collectivist Economic Planning*, pp. 241-42.

† Wicksteed *Common Sense of political Economy* P. 357.

‡ *Italics Mine Ibid* P. 357.

existing problems of economic administration when progressive suppression of the rural standards of life, with further acceleration of population growth in the years to come, would generate menacing interregional movements of population destroying the very foundation of the frail industrial structure that competitive economic evolution has set up in the few urban centres of the country, we will be able to appreciate the urgency of implementing a programme of full employment which would undoubtedly pilot the economic system of the country away from the muddle which competitive administration of the country's resources has created in the rural and urban zones of the subcontinent today.

The launching and maintenance of general economic stabilisation, if we may employ Sir William Beveridge's phraseology, "must be made a responsibility of the State".* "No one else has the requisite powers; the condition will not get satisfied automatically. It must be a function of the State in future to ensure adequate total outlay and by consequence to protect the citizens against mass unemployment, as definitely as it is now the function of the State to defend the citizens against attack from abroad and against robbery and violence at home."†

Adequate implementation of economic stabilisation would involve not only regulation of agricultural and industrial production, regulation of foreign trade and inter-regional trade, regulation of the money market, but also regulation of investment, interregional and international flow of capital

* Op cit P. 29.

† Sir William Beveridge, Full Employment, P. 29.

and even regulation of consumption and movements of labour between regions and occupations. It would imply synthetisation of economic development, firstly, with the dynamics of population in the country and secondly, as far as possible, with dynamics of world economic evolution, without damaging the productivity of the national economic system adequate to maintain full employment of national resources in manpower and material wealth.

This would mean emergence of price-policies, investment-policies and labour policies quite different from the existing patterns of economic evolution and must include institutional changes in the economic as well as the social structure of the country; thus, under price-stabilisation programmes, the markets in primary and industrial commodities would assume a new orientation; socialisation of 'demand' and 'socialisation' of production and exchange will have to be amply institutionalised; the banking system and the money-market in the country will have to be elevated into public utilities along with certain key industries, where the economies of 'scale' make centralisation of production imperative, like the iron and steel industries; and certain other projects like the hydro-electric projects and other sources of industrial and civic 'power' like coal, fuel and oil, which developmental projects might render available to the country. Enormous capital will have to be imported from abroad, and the Reserve Bank of India will have to be reconstructed to withstand heavy capital movements into the country. Similarly, wage-trends will have to be adequately controlled and regulated and such a control and regulation will have to postulate for adequate control over labour

unions, if not their complete sterilisation, and Government will have to emerge as the real 'governor' of economic evolution in the country.

Naturally, heavy centralisation of authority would precipitate difficulties in economic administration of stabilisation programmes. All branches of economic administration will have to be amply decentralised with power of decision resting with local economic administration units in regard to an adequate implementation of economic stabilisation programmes to maintain full employment in the regions concerned, while the Central Economic Administration must assume directive role to coordinate regional economic development projects into an integrated scheme of continental full employment.

Regulation of investment would mean that no private person or corporation can launch any investment programme which might damage general economic stabilisation programmes of the Government. During recent war, the Government of India did exercise such a control over fresh investment, though the control was more nominal than real. Without effective control over private investment outlay, it will not be possible to implement full employment, as any disturbance to the structure of total outlay would forge the economic system away from the employment pattern of economic evolution.

"If private enterprise does not provide a high level of employment," writes Harris, "and a reasonably high standard of living, government intervention is imperative."* India will have to undertake giant develop-

* Post War Economic Problems. P. 6.

mental projects along with programmes for the decentralisation and diffusion of the industrial and transport systems which necessarily involve heavy financial dealings which can only be undertaken by the Government, and would necessarily involve complete reorientation of public finance, as we understand it today.

The National Budget will have to include heavy debt-charges for capital imported from abroad and also must be something of the nature of a national economic balance sheet instead of confining itself to revenues and public administration expenditure and in this sense provincial and regional Budgets will undergo complete transformation particularly with the growth of communal outlay on public Health, Education, urban development, Hydro-Electric Schemes, Irrigation projects, Industrial Development Schemes, Development of Transport and Inter-regional Trade and Banking adjustments—to mention some of the major trends in financial policy of the Central and Regional Governmental machinery which full employment would render imperative.

There is no doubt that transitional problems have to be solved, if full employment is to be adequately implemented: the transitional problems that would have to be solved relate to institutional changes in the ownership of property and the composition of income structure consistent with the maintenance of full employment, without generating widespread distress in the country, and assume gigantic dimensions, particularly in regard to 'land ownership', where proprietary rights are scattered in the hands of subsistence farmers. Government must plan out long-range transition pro-

cesses in the matter of ownership in land and must conceive of compensatory transfer of ownership spread over a number of years while cultivation will have to be immediately adjusted to the production-schedules of high degree regional economic self-sufficiency in the first instance;* and intensive propaganda for purposes of persuasion will have to be undertaken before the launching of stabilisation programmes on all fronts to maintain full employment in the country.

These foregoing pages must have amply proved that India cannot attain anything like a satisfactory standard of living for the enormous volume of population she has been accumulating for the past half a century, if she persists in the competitive process of economic evolution; she would only create a gigantic vicious circle of unadjustable economic forces which would go on progressively suppressing the national standard of living till it generates a mass revolution, born of progressive economic attrition which would sweep away the very foundations of civilised existence; and would recreate the menacing 'paradox of plenty' which is today haunting the metropolitan zones of the world, should technical progress spread to India and contaminate the framework of the existing subsistence economy in the country.

It must be emphasised that *full employment economic evolution must mean a certain reduction of the productivity of the national economic system.* Though it might be possible to maintain reasonable technical advance commensurate with general economic stabilisation processes to sustain full employment, it must be stated that perfect

* In the United Provinces, legislative attempts have been made to abolish Zamindari land tenures in the present year.

cost structure parity with metropolitan zones cannot be attained, and our international trade would have to be readjusted to the exigencies of a complementary structure of international economic relations commensurate with the maintenance of internal economic stabilisation programmes.

India would have to guard herself, as long as she attempts to maintain a full employment pattern of economic evolution, against the import of economic instabilities from those zones of the world which are still wedded to non-interventionist programmes of economic expansion; and if it should be possible, in the near future, to think of full employment for the British Commonwealth of Nations, India's problems of external economic relations would be relatively less complicated, and it would be to the immense advantage of India to join an Imperial Federation of Full Employment zones as there are ample opportunities for India to maintain a structure of complementary economic relations with the other members of the British Commonwealth of Nations without any damage to the internal structure of economic evolution to sustain full employment for her four hundred million people.

At this stage it is imperative to assert that the chances of economic expansion for India in a world which is technically, economically, and culturally fully awake, are indeed slender, as for any other nation of the world; nor does the experience of the countries which have depended upon foreign trade, for the maintenance of the stability of their internal economic development, justify the wisdom of such a process of economic evolution. India cannot afford to waste her economic resources in the dubious game of maintaining volatile

cost structure parity to win international markets for her industry or agriculture; she has never attempted to play such a game, down through all the epochs of her long history, nor can she now engage in such an economic gamble on a world chess-board with the immense responsibilities she owes to her four hundred million children who do not yet have even the minimum decencies of civilised existence.

India's problems of reconstruction are indeed grave today; she has reached a stage of economic evolution when her own population is an economic burden on her own resources; nor is it possible to wish away this gigantic volume of population by chanting Neo-Malthusian dialectics. India must resolve to convert her vast population into her greatest wealth through a comprehensive programme of all-round economic development to conserve her resources, which a competitive system of economic administration has been impotent to utilise. There could be no more urgent or noble endeavour than to attempt to conserve the immense manpower and material resources so as to ensure for each child that is born in this country, a future of reasonable prosperity and economic security.

CORRECTION TABLE.

Page	Line	Incorrect	Correct
11	12	evil	evil of
vi	20	fliker	flicker
7	18-19	propenties	propensities
"	25	banker's	bankers'
6	Footnote 2.	politices	Politics
12	9	whch	which
"	21	npon	upon
21	22	monopolised	monopolised
30	2	strutture	structure
36	16	insidiously	insidiously
37	9	be	been
"	Footnote 1	..	Insert 'Italics mine'
40	3	indusrrial	industrial
41	15	certainly	certainly
43	Footnote	to	on
47	19	conneeted	connected
"	22	crop-schdules	crop-schedules
"	23	resurces	resources
50	Footnote 5.		Insert 'Italics mine'
52	2	worte	wrote
54	6	dynamic	dynamics
55	27		Delete 'we read'
57	25-26	iron-melting	iron-smelting
59	16	erratic resistences	erratic resistances
"	23	employent	employment
60	7	betwen	between
"	11	resistences	resistances
63	Footnote 2		Insert 'Italics mine
64	23	India	in India
73	11	under	Under
80	14	demobilisatian	'demobilisation
84	26	equalibrating	equilibrating
89	21	Provinces	Province
"	32	porposes	purposes
100	1	economic	the economic
"	5	canot	cannot
104	Footnote	Problem of Modern	Problems of Modern
		India	India
107	9	agriculture	agricultural
109	1	prominently	predominantly,
111	28	5 9	5.9
"	29	3 7	3.7
113	2	concentered	concentrated
114	2	the India's	the Indian
119	1	prices in 1944	prices with 1944 as the base
126	2	penalties	penalties
"	17	secore	secure
136	6	importent	impotent
140	20	competion	competition
"	25	industrsalisation	industrialisation
"	26	uncertainities has	uncertainties

Page	Line	Incorrect	Correct
141	Footnote 1.	Commrsson	Commission
"	" 2	Lapour	Labour
144	1	managemant	management
"	20	urgency by	urgency of
147	22	a structural	"a structural
150	27	<i>freguently</i>	<i>frequently</i>
152	8	<i>industrarl</i>	<i>industrial</i>
157	4	are to be	may be
160	28	would	should
176	3	creased	ceased
178	19	£ 38 millions	£ . 38 million
"	20	£ 26 millions	£ . 26 million
180	25	rate profit	rate of profit
181	Footnote to be added ;	R. L. Dewey, American Economic Review for May, 1946, p. 456	
184	11	system	systems
"	30	competen	competition
188	30	United State	United States
191	1	determines	determine
192	24	agricultural	agriculture
194	5	settled in	settled by
215	3	preference rations	preference ratios
216	26	same	some
217	12	serve	serve '
"	14	centery	century
"	24	up to	up the
218	7	a closely	closely
220	16	ration between	ratio bet een
223	19	Hous	House
226	10	institution	institutions
227	11	Banks have	Banks having
"	14	while the	the
232	12	Indian	India
"	22	1903	1913
"	23 et seq.	The figures are in thousands of	
235	11	flexiblitty	flexibility
237	20	advantage	advantages
"	28	pattarn	pattern
238	2	manacing	menacing
"		Indi' as	India's
239	6	Patent	patent
"	7	office	Office
242	12	contraction	contra:tion of
243	5	nf	of
250	13	"In 1925"	"In 1924-25"
252	3	in stationary	stationary
"	29	Newze-a-Land	New Zealand
253	4	is scattered	are scattered
"	19	Com-	com-
256	8	fund	Fund
257	9	merely	merely
265	29	cannot	cannot
266	12	powerfull	powerful
275	27	creates	create
291	Footnote	Beperidge	Beveridge